

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

Adam Smith

1776

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[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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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 180 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 107.

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 117 and 123 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 251 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 'work-house', 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 be 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 be 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 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 be 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 year; 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 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 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 is 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 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 makes 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 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.

Book II.

The nature, accumulation, and employment of stock

Introduction

In that rude [see Glossary] state of society where there is no division of labour, exchanges are seldom made, and every man provides everything for himself, it is not necessary that any stock should be accumulated, or stored up beforehand, in order to carry on the business of the society. Every man tries to meet by his own industry his own occasional wants as they occur. When he is hungry, he goes to the forest to hunt; when his coat is worn out, he clothes himself with the skin of the first large animal he kills; and when his hut begins to go to ruin, he repairs it as well as he can with the trees and the turf that are nearest it.

But once the division of labour has been thoroughly introduced, the product of a man's own labour can meet only a very small part of his occasional wants. Far more of them are met by the product of other men's labour, which he purchases with the product—i.e. the price of the product—of his own labour. But this purchase can't be made until the product of his own labour has been completed *and sold*. So a stock of goods of various kinds must be stored up somewhere, sufficient to maintain him and supply him with the materials and tools of his work at least until both these events have happened. A weaver can't apply himself entirely to his special business unless there is beforehand stored up somewhere, in his possession or someone else's, a stock sufficient to maintain him, and to supply him with the materials and tools of his work, until he has completed and sold his web. . . .

Just as the accumulation of stock must be previous to the division of labour, so labour can be more and more

subdivided only in proportion as stock is previously more and more accumulated. The quantity of materials that the same number of people can work up increases •as labour comes to be increasingly subdivided, and •as each workman's operations are gradually made simpler and a variety of new machines are invented for facilitating and abridging those operations. As the division of labour advances, therefore, in order to give constant employment to an equal number of workmen, an equal stock of provisions, and a greater stock of materials and tools than what would have been necessary in a ruder state of things, must be accumulated in advance. But the number of workmen in every branch of business generally increases with the division of labour in that branch; or rather it is the increase of their number which enables them to class and subdivide themselves in this manner.

The accumulation of stock is a prerequisite for carrying on this great improvement in the productive powers of labour, and it naturally leads to this improvement. The person who employs his stock in maintaining labour wants to employ it in such a way as to produce as much work as possible. So he tries •to make the best distribution of employment among his workmen, and •to provide them with the best machines he can invent or afford to purchase. How much he can achieve in both these ways is generally proportional to the extent of his stock, i.e. to the number of people it can employ. The quantity of industry, therefore, not only increases with the increase of the stock that employs it, but in consequence of that increase the same quantity of industry produces a much greater quantity of work.

Those are in general the effects of the increase of stock on industry and its productive powers.

In this Book I shall try to explain the nature of stock, the effects of its accumulation into capital of different kinds, and the effects of the different uses of those kinds of capital. The Book is divided into five chapters. **(1)** In the first I try to show what the parts or branches are into which the stock of an individual or of a society naturally divides itself. **(2)** In the second I try to explain the nature and operation of money, considered as one branch of the general stock of the society. The stock that is accumulated into capital may be employed by the person to whom it belongs or lent to someone else. In **(3)** **(4)** the third and fourth chapters I try to examine how it operates in both these situations. **(5)** The fifth and last chapter discusses the effects that the different employments of capital immediately produce on the quantity of national industry and of the annual product of land and labour.

Chapter 1. The division of stock

When the stock a man possesses is only enough to maintain him for a few days or a few weeks, he seldom thinks of deriving any income from it. He consumes it as sparingly as he can, and tries by his labour to acquire something to make up for it before it is consumed altogether. In this situation his income is derived solely from his labour; this is the situation of most of the working poor in all countries.

But when he owns enough stock to maintain him for months or years, he naturally tries to get income from most of it, reserving only as much for his immediate consumption as can maintain him until this income begins to come in. So his whole stock is distinguished into two parts. That part that he expects to provide him with this income is called his **capital**. The other part, which supplies his immediate

consumption, consists in

- (i)** the portion of his whole stock that was originally reserved for this purpose;
- (ii)** his income, from whatever source derived, as it gradually comes in; or
- (iii)** things that were purchased by either of these in former years, and are not yet entirely consumed, such as clothes, household furniture, etc.

The stock that men commonly reserve for their own immediate consumption consists in one or more of these three.

There are two ways in which capital can be employed so as to yield income or profit to its employer.

First, it can be employed in raising, manufacturing, or purchasing goods, and selling them again with a profit. The capital used in this way yields no income or profit to its employer while it either •remains in his possession or •continues in the same shape. A merchant's goods yield him no income or profit until he sells them for money, and the money yields him as little until it is again exchanged for goods. His capital is continually going from him in one shape, and returning to him in another; and it is only by means of such circulation or successive changes that it can yield him any profit. Such capital, therefore, may very properly be called *circulating capital*.

Secondly, it can be employed in the improvement of land, in the purchase of useful machines and instruments of trade, or other such things that yield income or profit without changing masters, or circulating any further. Such capital, therefore, may very properly be called *fixed capital*.

Different occupations require very different proportions between the fixed and circulating capital employed in them. The capital of a merchant, for example, is altogether a circulating capital. He has no need for machines or instruments of trade, unless his shop or warehouse is considered as such.

Some part of the capital of every master artificer or manufacturer must be fixed in the instruments of his trade. This part is very small in some and very large in others. A master tailor requires no other instruments of trade but a parcel of needles. Those of the master shoemaker are a very little more expensive. Those of the weaver rise a good deal above those of the shoemaker. But most of the capital of all such master artificers is circulated in the wages of their workmen or the cost of their materials, and is repaid with a profit by the price of the work.

In other works a much greater fixed capital is required. In a large iron-work, for example, the furnace for melting the ore, the forge, the slitting-mill, are instruments of trade that are very expensive to make. In coal works and mines of every kind, the machinery needed for drawing out the water and for other purposes is often still more expensive.

Of the farmer's capital, the part employed in the instruments of agriculture is fixed, the part employed in the wages and maintenance of his working servants is circulating. He makes a profit from the former by keeping it in his possession, and from the other by parting with it. The price or value of his working cattle [see Glossary] is a fixed capital, as is the value of the instruments of husbandry; their maintenance is a circulating capital, like that of the working servants. The farmer makes his profit by keeping the working cattle and by parting with their maintenance. Both the price and the maintenance of the cattle that are bought in and fattened, not for work but for sale, are a circulating capital. The farmer makes his profit by parting with them. A flock of sheep or a herd of cattle that is bought in not for work nor for sale but to make a profit from their wool, their milk, their increase, is a fixed capital. The profit is made by keeping them. Their maintenance is a circulating capital. The profit is made by parting with it; and it comes

back—with its own profit and the profit on the whole price of the cattle—in the price of the wool, the milk, the increase. The whole value of the seed is also a fixed capital. Though it goes backwards and forwards between the ground and the granary, it never changes masters and therefore doesn't actually circulate. The farmer makes his profit not by its sale but by its increase.

The general stock of any country or society is the same as that of all its inhabitants or members; so it naturally divides itself into the same three portions, each of which has a distinct function.

(1) The first is reserved for immediate consumption, and provides no income or profit. It consists in the stock of food, clothes, household furniture, etc. that have been purchased by their proper consumers but aren't yet entirely consumed. The whole stock of mere dwelling-houses at any one time in the country is also a part of this first portion. The stock that is laid out in a house, if it is to be the owner's residence, ceases from that moment to serve as capital or to provide any income to its owner. A residence as such contributes nothing to its inhabitant's income; and though it is extremely useful to him, that is in the same way as his clothes and household furniture are useful to him. They are a part of his expense, and not of his income. If his house is to be let to a tenant for rent, because the house itself can't produce anything the tenant must always pay the rent out of some other income that he derives from labour, stock, or land. Thus, though a house can yield income to its owner, and thereby serve as capital to him, it can't yield any revenue to the public or serve in the function of capital to it; the revenue of the whole body of the people can't be increased *at all* by it. Clothes and household furniture sometimes yield a revenue in the same way, serving as capital for particular persons. In countries where masquerades are common, it is a trade to

let out masquerade dresses for a night. Upholsterers often let furniture by the month or by the year. Undertakers let the furniture of funerals by the day and by the week. Many people let furnished houses, and get a rent for the use of the house and of the furniture. But the income derived from such things must always be ultimately drawn from some other source of income. . . . A stock of houses, well built and properly taken care of, may last many centuries; but although their total consumption is a long way off, they still count as stock reserved for immediate consumption, just like clothes and household furniture.

(2) The second portion of the society's general stock is the fixed capital, which provides revenue or profit without circulating or changing owners. It consists chiefly of the four following articles:

- (i)** Useful machines and instruments of trade that facilitate and abridge labour.
- (ii)** Profitable buildings that procure income not only to the owner but to the person who occupies them and pays rent for them; such as shops, warehouses, workshops, farm-houses, . . . etc. These are a sort of instruments of trade, and can be regarded as such.
- (iii)** Improvements of land that has been profitably laid out in clearing, draining, enclosing, manuring, and putting it into the best condition for ploughing and growing. An improved farm is comparable with the useful machines that facilitate and abridge labour, enabling an equal circulating capital to provide more income to its employer. . . .
- (iv)** The acquired and useful abilities of all the members of the society. The acquisition of such talents—by the maintenance of the acquirer during his education, study, or apprenticeship—always costs a real expense, which is a fixed capital that is realized, as it were, in

his person. Those talents make a part of his fortune and also of the society's. The workman's improved skill is comparable with a machine or instrument of trade that facilitates and abridges labour, costing a certain expense but repaying it with a profit.

(3) The third portion of the society's general stock is the circulating capital, which provides income only by circulating or changing masters. It is also made up of four parts.

- (i)** The money by means of which all the other three are circulated and distributed to their proper consumers.
- (ii)** The stock of provisions that are in the possession of the butcher, the grazier, the farmer, the corn-merchant, the brewer, etc. and from the sale of which they expect to derive a profit.
- (iii)** The materials of clothes, furniture, and buildings that are not yet made up into any of those three shapes and remain in the hands of the growers, the manufacturers, the mercers, and drapers, the timber-merchants, the carpenters and joiners, the brick-makers, etc.
- (iv)** Work that is made up and completed but is still in the hands of the merchant and manufacturer and not yet distributed to the proper consumers; such as the finished work in the shops of the smith, the cabinet-maker, the goldsmith, the jeweller, the china-merchant, etc.

The circulating capital consists in this way in the •provisions, •materials, and •finished work of all kinds that are in the hands of their respective dealers, and of the •money needed for circulating and distributing them to those who are finally to use or consume them.

Three of these four parts—provisions, materials, and finished work—are regularly withdrawn from it and placed in the fixed capital or in the stock reserved for immediate consumption.

All fixed capital is originally derived from circulating capital and has to be continually supported by it. All useful machines and instruments of trade are originally derived from circulating capital that provides •the materials they are made of and •the maintenance of the workmen who make them. They also require capital of the same kind to keep them in constant repair.

No fixed capital can yield any income except through circulating capital. The most useful machines and instruments of trade won't produce anything without the circulating capital that provides the materials they are employed on and the maintenance of the workmen who employ them. Land, however improved, won't yield income without circulating capital that maintains the labourers who cultivate and collect its product.

The sole purpose of the fixed and circulating capital is to maintain and increase the stock that can be reserved for immediate consumption. It is this stock that feeds, clothes, and lodges the people. Whether they are rich or poor depends on how much those two capitals can provide to the stock reserved for immediate consumption.

So much of the circulating capital is continually being withdrawn from it and placed in the other two branches of the society's general stock that it would soon cease to exist if it didn't take in continual supplies. These are principally drawn from the product •of land, •of mines, and •of fisheries. These provide continual supplies of provisions and materials, some of which are then manufactured into finished work that replaces the provisions, materials, and finished work continually withdrawn from the circulating capital. The mines also provide what is needed for maintaining and increasing the part of the circulating capital that consists in money. For though in the ordinary course of business this part is not, like the other three, necessarily withdrawn from it

and placed in the other two branches of the society's general stock, it must (like all other things) eventually be wasted and worn out, or lost or sent abroad; so it also needs continual replacement supplies, though no doubt much smaller ones.

Lands, mines, and fisheries all need fixed *and* circulating capital to cultivate them; and their product replaces (with a profit) not only those capitals but all the others in the society. Thus the farmer annually replaces to the manufacturer the provisions he had consumed and the materials he had worked up the year before; and the manufacturer replaces to the farmer the finished work that he had wasted and worn out in the same time. This is the real exchange that is annually made between those two kinds of people, though the rude product of the one is seldom directly bartered for the manufactured product of the other: the farmer doesn't often sell his corn and cattle, his flax and wool, to the very person from whom he chooses to purchase clothes, furniture, and instruments of trade. Rather, he sells his rude [see Glossary] product for money with which he can purchase the manufactured product he wants, wherever it is to be had. Land even replaces, in part at least, the capital with which fisheries and mines are cultivated. The product of land is what draws the fish from the waters; and the product of the earth's surface is what extracts the minerals from its depths.

The product of land, mines, and fisheries—when their natural fertility is equal—is in proportion to the extent and proper application of the capital used on them. When the amounts of capital are equal and equally well applied, it is in proportion to their natural fertility.

In any country where there is a tolerable security, every man of common sense will try to use whatever stock he can command to procure present enjoyment or future profit. If it is used in procuring present enjoyment, it is a stock reserved for immediate consumption. If it is used in procuring future

profit, it must do this either by staying with him (fixed) or going from him (circulating). In a situation where there is a tolerable security, a man who doesn't employ all the stock he commands—whether it's his own or borrowed—in one or other of those three ways must be perfectly crazy.

In unfortunate countries where men are continually afraid of the violence of their superiors, they often bury or conceal a large part of their stock so as to have it always available to take with them to some place of safety in case of need. This is said to be a common practice in Turkey and, I believe, in most Asian countries. It seems to have been a common practice among our ancestors during the violence of feudal times. In those times treasure-trove was regarded as a considerable part of the revenue of the greatest sovereigns in Europe. It consisted in treasure found concealed in the earth, to which no particular person could prove any right. Back then, such treasure was regarded as so important that it was always considered as belonging to the sovereign, not to the finder or the proprietor of the land, unless the right to it had been conveyed to the latter by an explicit clause in his charter. This put it on the same footing as the output of gold and silver mines, which were never supposed to be comprehended in the general grant of the lands except where there was a special clause in the charter. It was different with mines of lead, copper, tin, and coal—things of smaller consequence.

Chapter 2. Money, considered as a part of the society's general stock. The expense of maintaining the national capital.

I showed in Book I that the price of most commodities falls into three parts, of which one pays the wages of the labour, another the profits of the stock, and a third the rent of the

land that had been employed in producing and bringing them to market; that there are indeed some commodities whose price is made up of only the wages of labour and the profits of stock; that in a very few it consists solely in the wages of labour; but that the price of every commodity has to consist in one or more of those three parts, and every part that doesn't go to rent or wages must be somebody's profit.

As I said: since this is the case for every particular commodity taken separately, it must be the case for all the commodities composing the whole annual product of the land and labour of any country taken together. The whole price or exchangeable value of that annual product must fall into the same three parts, and be parcelled out among the inhabitants of the country as the wages of their labour, the profits of their stock, or the rent of their land.

... In the rent of a private estate we distinguish between the gross rent and the net rent, and we can make the same distinction with regard to the revenue of all the inhabitants of a large country.

A private estate's gross rent is whatever is paid by the farmer; the net rent is what remains of that after the landlord has deducted the expense of management, of repairs, and all other necessary charges; i.e. what he can, without hurting his estate, place in his stock for immediate consumption, or to spend on his food, equipage, the ornaments of his house and furniture, his enjoyments and pastimes. His real wealth is in proportion to his net rent, not his gross rent.

The gross revenue of all the inhabitants of a large country includes the whole annual product of their land and labour. The net revenue is what they have left after deducting the expense of maintaining their fixed capital and their circulating capital, i.e. what without encroaching on their capital they can place in their stock reserved for immediate consumption, or spend on their subsistence, conveniences,

and pastimes. Their real wealth, again, is in proportion to their net revenue, not their gross revenue.

Obviously the whole expense of maintaining the fixed capital must be excluded from the society's net revenue. It can never include the costs of the materials needed for supporting their useful machines and instruments of trade, their profitable buildings, etc. or the product of the labour needed for working those materials into the proper form. The price of that labour may indeed make a part of it, because the workmen so employed may put the whole value of their wages in their stock for immediate consumption. But in other sorts of labour the price and the product both go to this stock—the price to that of the workmen, the product to that of other people whose subsistence, conveniences, and pastimes are increased by the labour of those workmen.

The intention of the fixed capital is to increase labour's productive powers, i.e. to enable the same number of labourers to do much more work. In a farm where all the necessary buildings, fences, drains, communications, etc. are in perfect order, the same number of labourers and labouring cattle will raise a much greater product than they would in one of equal extent and equally good ground but not provided with equal conveniences. In manufacturing the same number of hands using the best machinery will work up a much greater quantity of goods than they would with less perfect instruments. Expense that is properly laid out on fixed capital of any kind is always repaid with great profit, and increases the annual product by a value much greater than the value of the support such improvements require. Still, this support does require a certain portion of that product. A certain quantity of materials, and the labour of a certain number of workmen—both of which might have been immediately used to increase the food, clothing, and lodging, the subsistence and conveniences of the society—are thus diverted to another

use; highly advantageous indeed, but still different from this one. That is why improvements in mechanics that enable the same number of workmen to do more work with cheaper and simpler machinery than before are always regarded as advantageous to every society. [He goes on for some time repeating and illustrating this.]

The expense of maintaining the fixed capital in a large country is comparable with the expense of repairs in a private estate. The expense of repairs is often necessary for supporting the product of the estate and consequently the landlord's gross and net rent. But when by a better direction it can be reduced without any lessening of product, the gross rent is not lower than before and the net rent is greater.

But though the whole expense of maintaining the fixed capital is excluded from the society's net revenue, it is not the same with the expense of maintaining the circulating capital. Of the four parts of which the latter is composed—money, provisions, materials, and finished work—the last three are regularly withdrawn from it and placed in the society's fixed capital or in their stock reserved for immediate consumption. Whatever portion of those consumable goods is not used in maintaining the former goes entirely to the latter and constitutes a part of the society's net revenue. So the maintenance of those three parts of the circulating capital takes nothing from the society's net revenue except for what is needed for maintaining the fixed capital.

A society's circulating capital is different from an individual's in this respect. That of an individual is totally excluded from his net revenue, which must consist purely in his profits. But though every individual's circulating capital is part of the circulating capital of the society he belongs to, that doesn't block it from also constituting a part of their net revenue. The whole goods in a merchant's shop can't all be

placed in his own stock reserved for immediate consumption, they may be in that of other people, who from a revenue derived from other funds may regularly replace their value to him together with its profits, without causing any lessening of his capital or of theirs.

So **money** is the only part of a society's circulating capital the maintenance of which can cause any lessening in their net revenue.

In their effects on a society's revenue, its fixed capital is very like the part of its circulating capital that consists in money. There are three aspects to this resemblance.

(i) Those machines and instruments of trade etc. require a certain expense, first to construct them and then to support them, these expenses being deductions from the net (but not the gross) revenue of the society; similarly, the stock of money that circulates in a country requires a certain expense, first to collect it and then to support it, these expenses being deductions from the net (but not the gross) revenue of the society. A certain quantity of very valuable materials (gold and silver) and of very skilled and intricate labour, instead of increasing the stock reserved for immediate consumption, the subsistence, conveniences, and pastimes of individuals, is used in supporting money, that great but expensive instrument of commerce through which every individual in the society has his subsistence, conveniences, and pastimes regularly distributed to him in their proper proportions.

(ii) The machines and instruments of trade etc. that compose the fixed capital of an individual or a society don't constitute a part of the gross or of the net revenue of either; similarly, money—through which the society's whole revenue of is regularly distributed among its members—does not itself constitute any part of that revenue. The great wheel of circulation is altogether different from the goods that are

circulated by means of it. The society's revenue consists entirely in those goods and not in the wheel that circulates them. In computing a society's gross revenue or its the net revenue, we must always deduct from •the whole annual circulation of money and goods •the whole value of the money, not a farthing of which can ever be a part of either.

If this proposition appears doubtful or paradoxical, that is because of the ambiguity of language. When properly explained and understood, the proposition is almost self-evident.

When we talk of a particular sum of money, we sometimes mean only the metal pieces of which it is composed, and sometimes we include in our meaning an obscure reference to the goods that can be had in exchange for it, or to the power of purchasing that comes from owning it. Thus, when we say that the circulating money of England has been computed at £18,000,000 we mean only to express the amount of the metal pieces which some writers have computed (or rather have supposed!) to circulate in England. But when we say that a man is worth £50 or £100 a year, we usually mean to express not only •the amount of the metal pieces that are annually paid to him but also •the value of the goods he can annually purchase or consume, •what ought to be his way of living, i.e. the quantity and quality of the necessities and conveniences of life in which he can properly indulge himself. . . .

If a man's weekly pension is a guinea, he can in the course of the week purchase with it a certain quantity of subsistence, conveniences, and pastimes. In proportion as this quantity is large or small, so are his real riches, his real weekly income. His weekly income is certainly not equal both to the guinea and to what can be purchased with it, but only to one or other of those two equal values, and more properly to the guinea's worth rather than to the guinea.

If his pension was paid to him not in gold but in a weekly bill [= promissory note] for a guinea, his income surely would consist not in the piece of paper but in what he could get for it. A guinea may be considered as a bill for a certain quantity of necessities and conveniences on all the tradesmen in the neighbourhood. The income of the person to whom it is paid consists not in the piece of gold but in what he can get for it, i.e. what he can exchange it for. If it couldn't be exchanged for anything, the gold coin—like a bill on a bankrupt—would be of no more value than the most useless piece of paper. [Smith has two more paragraphs essentially repeating all this. Then:]

But if this is obvious enough even with regard to an individual, it is still more so with regard to a society. The amount of the metal pieces that are annually paid to an individual is often precisely equal to his income, which makes it the shortest and best expression of its value. But the amount of the metal pieces that circulate in a society can never equal the income of all its members. A guinea that pays one man's pension today may—the very same coin—pay that of another tomorrow, and of a third the day after; so the amount of the metal pieces that annually circulate in a country must always be worth much less than the whole money pensions annually paid with them. But the power of purchasing—the goods that can be bought with the whole of those money pensions as they are successively paid—must always be precisely of the same value as those pensions; as must likewise be the income of the persons to whom they are paid. So that income consists not in those metal pieces. . . .but in the power of purchasing, in the goods which can successively be bought with them as they circulate from hand to hand.

Thus, money—the great wheel of circulation, the great instrument of commerce—. . .is a very valuable part of a

society's capital, but makes no part of its revenue, The metal pieces of which it is composed, in the course of their annual circulation, distribute to every man the income that properly belongs to him, but they make no part of that income.

(iii) The machines and instruments of trade etc. that compose the fixed capital resemble the part of the circulating capital that consists in money in a third way: just as

- every saving in the expense of erecting and supporting those machines that doesn't diminish the introductive powers of labour is an improvement of the net revenue of the society

so also

- every saving in the expense of collecting and supporting the part of the circulating capital that consists in money is an improvement of exactly the same kind.

[Now a paragraph explaining this, though 'it is sufficiently obvious' and 'has partly been explained already'. Then:]

·PAPER MONEY AND METAL MONEY·

The substitution of paper for gold and silver money replaces a very expensive instrument of commerce with one that is much less costly and sometimes equally convenient. Circulation comes to be carried on by a new wheel that costs less to erect and maintain than the old one. But *how* this happens, and how it tends to increase either the gross or the net revenue of the society, is not so obvious and may require some further explanation.

There are several sorts of paper money; but the circulating notes of banks and bankers are the sort that is best known and seems best adapted for this purpose.

When the people of a country have so much confidence in a particular banker's fortune, probity and prudence that they believe he is always ready to pay on demand such of his promissory notes as are likely to be presented to him at any

time, those notes come to have the same currency as gold and silver money. . . .

Suppose a banker lends his customers promissory notes to the value of £100,000. Because those notes serve all the purposes of money, his debtors pay him the same interest as if he had lent them that much money. This interest is the source of his gain. Though continually some of those notes come back to him for payment, some of them continue to circulate for months and years together. So although he generally has in circulation notes to the value of £100,000, he may not need more than £20,000 in gold and silver to answer occasional demands; which means that that much gold and silver perform all the functions that £100,000 could otherwise have performed. . . . Thus, £80,000 of gold and silver can be spared from the circulation of the country; and if operations of the same are carried on at the same time by many banks and bankers, the whole circulation can be conducted with one fifth of the gold and silver that would otherwise have been required.

Consider this example: The whole circulating money of a country amounts at a particular time to £1,000,000 sterling, that being enough for circulating the whole annual product of their land and labour. At some later time different banks and bankers issue promissory notes to the value of £1,000,000, reserving in their coffers £200,000 for answering occasional demands; so there remains in circulation £800,000 in gold and silver and £1,000,000 of bank notes, i.e. £1,800,000 of paper and money together. But the annual product of the land and labour of the country has required only £1,000,000 to circulate and distribute it to its proper consumers; that annual product can't be immediately increased by those operations of banking; so £1,000,000 will still be sufficient to circulate it. The goods to be bought and sold being the same as before, the same quantity of money will be

sufficient for buying and selling them. . . . So the other £800,000. . . cannot be employed in this country; but it is too valuable to be allowed to lie idle, and will therefore be sent abroad, to seek the profitable employment that it cannot find at home. But the paper cannot go abroad, because at a distance from the banks that issue it and from the country in which payment of it can be enforced by law it will not be received in common payments. Gold and silver, therefore, to the amount of £800,000 will be sent abroad, and the channel (so to speak) of home circulation will remain filled with £1,000,000 of paper instead of £1,000,000 of the metals that filled it before.

The gold and silver thus sent abroad is exchanged for foreign goods of some kind, to supply the consumption either of some other foreign country or of their own.

If they employ it in purchasing in one foreign country goods to be consumed in another—i.e. in what is called the *carrying trade*—any profit they make will be additional to the net revenue of their own country. It is like a new fund, created for carrying on a new trade; domestic business being now transacted by paper, and the gold and silver being converted into a fund for this new trade.

If they employ it in purchasing foreign goods for home consumption, they may either **(a)** purchase goods—e.g. foreign wines, foreign silks, etc.—that are likely to be consumed by idle people who produce nothing, or **(b)** purchase an additional stock of materials, tools, and provisions, to maintain and employ an additional number of industrious people, who reproduce with a profit the value of their annual consumption.

In the case of **(a)** it promotes prodigality [see Glossary], increasing expense and consumption without increasing production or establishing any permanent fund for supporting that expense. This is in every respect hurtful to the society.

In the case of **(b)** it promotes industry; and though it increases the society's consumption it provides a permanent fund for supporting that consumption, because the people who consume reproduce with a profit the whole value of their annual consumption. The *gross* revenue of the society—the annual product of their land and labour—is increased by the whole value that the labour of those workmen adds to the materials on which they are employed; its *net* revenue is increased by what remains of this value after deducting the cost of supporting the tools and instruments of their trade.

It seems almost unavoidable that most of the gold and silver employed in purchasing foreign goods for home consumption will be employed in purchasing **(b)**-type goods. Some •individual men may sometimes increase their expense greatly though their income does not increase at all, but we can be sure that no •class or order of men ever does so; because the principles of common prudence, though not always governing the conduct of every individual, always influence the conduct of the majority of every class or order. And the income of idle people, considered as a class or order, cannot be increased at all by those operations of banking. . . .

When we compute the quantity of industry that the circulating capital of any society can employ, we must think of the circulating capital as consisting only of provisions, materials, and finished work; the other part of it, money, serves only to circulate those three and must always be deducted. To put industry into motion there have to be

- materials to work on,
- tools to work with, and
- wages or recompense for the sake of which the work is done.

Money is not a material to work on or a tool to work with; and though the workman's wages of are commonly paid in money, his real income—like everyone else's—consists not in

the money but in the money's worth; not in the metal pieces but in what can be purchased using them.

[Three paragraphs on the arithmetic (as it were) of how to compute a country's circulating capital and how its value relates to 'the whole value of the annual product circulated by means of it'. Then:]

An operation of this kind has been performed in Scotland in the past 25 or so years, by the erection of new banking companies in almost every considerable town and even in some country villages. The effects of this have been precisely what I have described. Scotland's business is almost entirely carried on by means of the paper of those banking companies. . . . Silver seldom appears except in the change of a twenty shilling bank note, and gold still seldomer. But though the conduct of those companies has been questionable, and has accordingly required an act of parliament to regulate it, the country has evidently derived great benefit from their trade. [He reports that Glasgow's trade is said by some to have doubled in 15 years after banks opened there, and Edinburgh's quadrupled; but he suspects that these are exaggerations.]

[Then about a page giving further details of the advantages to the Scottish economy of paper money, and an account of two ways Scottish banks have had of issuing promissory notes = paper money. We rejoin Smith when he starts on the second of these:]

The banks invented another method of issuing their promissory notes, namely by granting what they call 'cash accounts', i.e. by giving credit to the extent of a certain sum to any individual who could procure two persons of undoubted credit and good landed estate to vouch for him that whatever money was advanced to him would be repaid on demand, together with the legal interest. Credits of this kind are, I believe, commonly granted by banks and bankers

in many parts of the world. But the easy terms on which the Scotch banking companies accept repayment are, so far as I know, exclusive to them, and may have been the principal cause of the great trade of those companies and of the benefit the country has received from it.

Whoever has a credit of this kind with one of those companies, and borrows (say) £1,000 on it may repay this sum piecemeal by (say) £20 at a time, with the company adjusting the interest proportionally. All merchants and almost all men of business find it convenient to keep such cash accounts with them, and are thereby interested to promote the trade of those banking companies by readily receiving their notes in all payments, and by encouraging all those with whom they have any influence to do the same. . . .

By means of these cash accounts every merchant can without imprudence carry on a greater trade than he otherwise could do. Suppose there are two merchants, one in London and the other in Edinburgh, who employ equal stocks in the same branch of trade; the Edinburgh merchant can without imprudence carry on a greater trade and employ more people than the London merchant. The London merchant must always keep by him a considerable sum of money—either in his own coffers, or in those of his banker who gives him no interest for it—in order to answer the demands continually coming on him for payment of the goods that he purchases on credit. Suppose the ordinary amount of this sum is £500; then the value of the goods in his warehouse must always be £500 less than it would have been if he had not been obliged to keep such a sum unemployed. [Smith spells it out: less stuff in the warehouse, so fewer sales, so less profit, so fewer people employed; unlike the merchant in Edinburgh, who doesn't need to keep cash on hand, because he can meet 'occasional demands' by drawing on his 'cash account with the bank'; therefore etc.]

The whole paper money that can easily circulate in a country can never exceed the value of the gold and silver that it replaces. . . . If the lowest paper money current in Scotland are 20-shilling notes, the whole of that currency that can easily circulate there cannot exceed the sum of gold and silver that would be needed for transacting the annual exchanges of 20 shillings value and upwards usually transacted within that country. If the circulating paper exceeded that sum, the excess—which could not be sent abroad or employed in the circulation of the country—must immediately return on the banks to be exchanged for gold and silver. Many people would see that they had more of this paper than was needed for their business at home; and as they could not send it abroad they would immediately demand payment for it from the banks. When it was converted into gold and silver they could easily find a use for it by sending it abroad; but they could find none while it remained in the shape of paper. So there would immediately be a run on the banks to the whole extent of this superfluous paper. . . .

[Smith now offers about 20 pages of detailed discussion of paper money, including much about ways of trying to get dishonest advantages relating to it; attempts by banks to prevent those; mistakes by banks that didn't fully understand what was going on; transactions between dealers and dealers versus transactions between dealers and consumers; and so on. Three passages out of all this are reproduced here because of their more general interest. The first comes after an account of restrictions on what values of paper money may be issued, on the grounds that allowing paper to stand in for coins for amounts as low as five shillings will tend to drive silver and gold out of the country.]

This may be said:

'To restrain private people from receiving in payment the promissory notes of a banker for any sum, whether

great or small, when they themselves are willing to receive them; or, to restrain a banker from issuing such notes, when all his neighbours are willing to accept them, is a manifest violation of the natural liberty that it is the proper business of law to support, not to infringe.'

Such regulations can indeed be seen as in some respect a violation of natural liberty. But exercises of the natural liberty of a few individuals that might endanger the security of the whole society *ought to be* restrained by the laws of all governments—of the most free as well as of the most despotic. The obligation to build party walls to prevent fires from spreading is a violation of natural liberty, exactly on a par with the regulations of the banking trade proposed here.

* * * * *

It has been said that the increase of paper money, by increasing the quantity of the whole currency and thus lessening its value, inevitably increases the money price of commodities. But as the quantity of gold and silver that is taken from the currency is always equal to the quantity of paper that is added to it, paper money does not necessarily increase the quantity of the whole currency. [He gives examples, including: 'Corn is as cheap in England as in France, though there is a great deal of paper money in England and hardly any in France.' He adds that paper money would be worth less than gold and silver if it weren't •guaranteed that it could •on demand and •immediately be exchanged for gold and silver. Various tricks and devices by banks (and other issuers of paper money) to ensure *delay* in paying metal for paper are described, including this one:]

The paper currencies of North America consisted not in •bank notes payable to the bearer on demand but in •government paper that could not be redeemed until several years after it was issued; and though the colony governments

paid no interest to the holders of this paper, they declared it to be—and in fact made it be—legal tender of payment for the full value for which it was issued. But allowing the colony security to be perfectly good, £100 payable after 15 years in a country where interest is at 6% is worth little more than £40 ready money. Thus, to oblige a creditor to accept this as full payment for a debt of £100 actually paid down in ready money was an act of violent injustice such as may never have been attempted by the government of any other country that claimed to be free. It bears the evident marks of having originally been. . . . a scheme of fraudulent debtors to cheat their creditors.

* * * * *

If bankers are restrained from issuing any circulating bank notes (or notes payable to the bearer) for less than a certain sum; and if they are required to provide immediate and unconditional payment of such bank notes as soon as they are presented, their trade can be made in all other respects perfectly free without this bringing any risk to the public. Many people have been alarmed by the recent multiplication of banking companies in both parts of the united kingdom; but in fact this *increases* the security of the public. It obliges all the banking companies to be more circumspect in their conduct: they have to avoid extending their •paper• currency beyond its due proportion to their •metal• cash, to protect themselves against the malicious bank-runs that the rivalry of so many competitors is always ready to bring on them. Also, it keeps the circulation of each individual banking company within a narrower circle, and reduces their circulating notes to a smaller number, •and this contributes to the public's safety in another way by• dividing the whole circulation into a greater number of parts, so that when one company fails (which in the course of things must sometimes happen) this is of less consequence

to the public. This free competition also obliges all bankers to be more liberal in their dealings with their customers, lest their rivals should steal them away. In general, if any branch of trade or division of labour is advantageous to the public, it will always be *more* advantageous in proportion as competition within it is free and general.

Chapter 3. The accumulation of capital; productive and unproductive labour

One sort of labour adds to the value of the item on which it is bestowed; another sort has no such effect. We may call these 'productive' and 'unproductive' labour respectively. Thus the labour of a manufacturer [see Glossary] generally adds to the value of •the materials he works on, •his own maintenance, and •his master's profit. The labour of a domestic servant, on the other hand, adds to the value of nothing. Though the manufacturer has his wages advanced to him by his master, he really costs him nothing because the value of those wages is generally restored—with a profit—in the improved value of the item on which his labour is bestowed. But the maintenance of a domestic servant is never restored. A man grows rich by employing a number of manufacturers; he grows poor by maintaining a number of domestic servants. The labour of the latter has its value, and deserves its reward as well as that of the former. But the labour of the manufacturer fixes and realizes itself [Smith's phrase] in some particular item or vendible commodity, which lasts for at least some time after that labour is past. It is a certain quantity of labour (as it were) stored up to be employed on some other occasion. That item—or the price of that item—can later put into motion a quantity of labour equal to that which originally produced it. The labour of the domestic servant, on the other hand, does not fix or realize itself in any vendible commodity. His

services generally perish in the instant of their performance, and seldom leave behind them any trace of value for which an equal quantity of service could later be procured.

The labour of some of the most respectable orders in the society is like that of domestic servants in that respect. The sovereign is an unproductive labourer, and so are all the officers of justice and of war who serve under him. They are the servants of the public, and are maintained by a part of the annual product of the industry of other people. However honourable, useful, or necessary their service is, it produces nothing for which an equal quantity of service can be procured later on. The protection, security, and defence of the commonwealth, the effect of their labour this year, will not purchase its protection, security and defence for next year. In the same class must be ranked

- some of the gravest and most important professions—churchmen, lawyers, physicians, men of letters of all kinds; and
- some of the most frivolous—players, buffoons, musicians, opera-singers, opera-dancers, etc.

. . . The work of the noblest and most useful of these is like the declamation of the actor, the harangue of the orator, or the tune of the musician, in that it perishes in the very instant of its production.

Both productive and unproductive labourers, and people who do not labour at all, are all equally maintained by the annual product of the land and labour of the country. This product. . . must have certain limits. So the more (or less) of it that is employed in any one year in maintaining unproductive hands, the less (or more) will remain for the productive hands; and the next year's product will be accordingly be less (or more), because—setting aside the spontaneous productions of the earth—the whole annual product is the effect of productive labour.

The whole annual product of the land and labour of a country is •ultimately destined for supplying the consumption of its inhabitants and for giving them an income; but •at the outset—when it first comes from the ground or from the hands of the productive labourers—it naturally falls into two parts:

- (1) one initially destined for replacing capital, or for renewing the provisions, materials, and finished work that had been withdrawn from capital;
- (2) the other constituting income for the owner of this capital as the profit of his stock, or for someone else as the rent of his land.

Thus, of the product of land, one part replaces the farmer's capital; the other pays his profit and the rent of the landlord. . . . Of the product of a great factory, one part (always the larger) replaces the capital of the undertaker of the work; the other pays his profit, and thus constitutes an income for the owner of this capital.

That part that replaces capital is never immediately employed on anything but the wages of *productive* labour. The part that is immediately destined for constituting income, either as profit or as rent, may maintain either productive or unproductive hands.

Whatever part of his stock a man employs as capital, he always expects it to be replaced to him with a profit. So he employs it only in maintaining productive hands; and after having served as capital for him it constitutes income for them. Whenever he employs any part of it in maintaining unproductive hands of any kind, that part is right then withdrawn from his capital and placed in his stock reserved for immediate consumption.

[Smith now explains that unproductive labourers and people who do not labour at all are all maintained by the incomes of others, and the 'others' may be from any level

in society. He continues:] Even the common workman, if his wages are considerable, may maintain a domestic servant; or he may sometimes go to a play or a puppet-show, and so contribute his share towards maintaining one set of unproductive labourers; or he may pay some taxes, and thus help to maintain another set, more honourable and useful, indeed, but equally unproductive. But no part of the annual product that had been originally destined to replace capital is ever directed towards maintaining unproductive hands until after it has put into motion its full complement of productive labour. . . . The workman must have *earned* his wages before he can employ any part of them in this manner. That part, too, is generally a small one. It is his spare income only, of which productive labourers seldom have much (though they generally have some; and in the payment of taxes the largeness of their number may compensate somewhat for the smallness of their individual contributions). So unproductive hands get their subsistence mainly from the rent of land and the profits of stock. These are the two sorts of income of which the owners generally have most to spare. They are free to maintain productive *or* unproductive hands, as they choose; but they seem to have some predilection for the latter. The expense of a great lord generally feeds more idle people than industrious ones. The rich merchant, though with his capital he maintains only industrious people, he commonly uses his income in the same sort of way as the great lord.

Thus, the proportion between productive and unproductive hands depends very much on the proportion between •the part of the country's annual product that is initially destined for replacing capital and •the part that is destined for constituting income, either as rent or as profit. This proportion is very different in rich countries from what it is in poor ones.

Thus, at present, in the opulent countries of Europe, a

very large, often the largest, portion of the product of the land is destined for replacing the capital of the rich and independent farmer; the other for paying his profits, and the rent of the landlord. But. . . [and now Smith describes how things were in France in feudal times, when the land was poor and those who worked on it often virtual slaves. Then:]

In the opulent countries of Europe great amounts of capital are at present employed in trade and manufactures. In the ancient state, the little trade that was stirring, and the few homely and coarse manufactures that were carried on, required very little capital; but they must have yielded large profits. The rate of interest was nowhere less than 10%, and their profits must have been sufficient to pay this. At present the rate of interest in the improved parts of Europe is nowhere higher than 6% and in some of the most improved it is as low as 2%. Though the part of the income of the inhabitants that comes from the profits of stock is always much greater in rich countries than in poor ones, that is because the stock is much greater; in proportion to the stock, the profits are generally much less.

So the part of the annual product that is immediately destined for •replacing capital is not only greater in rich countries than in poor ones, but bears a much greater proportion to the part that is immediately destined for •constituting rent or profit. ·To put this in another way·: The funds destined for the maintenance of productive labour are not only greater in rich countries than in poor ones, but bear a much greater proportion to the funds which, though they can be employed to maintain either productive or unproductive hands, generally have a predilection for the latter.

The proportion between those different funds determines the general character of the country's inhabitants as to industry or idleness. We are more industrious than our forefathers, because the funds destined for the maintenance of industry

today are greater in proportion to those that are likely to be employed in the maintenance of idleness than they were two or three centuries ago. Our ancestors were idle because of a lack of sufficient encouragement to industry. It is better, says the proverb, to play for nothing than to work for nothing. In mercantile and manufacturing towns—e.g. many English towns and in most Dutch ones—where the lower ranks of people are chiefly maintained by the employment of capital, they are in general industrious, sober, and thriving. In towns that are principally supported by the constant or occasional residence of a ·royal· court, and where the lower ranks of people are chiefly maintained by the spending of income, they are in general idle, dissolute, and poor; as at Rome, Versailles, Compiègne, and Fontainebleau. [He illustrates this in terms of the two kinds of towns in Europe, noting certain exceptions—especially London, Lisbon and Copenhagen—and explaining why they are so. Summing up the general thesis:] Sometimes the inhabitants of a large village, after having made considerable progress in manufactures, have become idle and poor because a great lord took up his residence in their neighbourhood.

The proportion between capital and income, therefore, seems to regulate the proportion between industry and idleness: where capital predominates, industry prevails; where income, idleness. Every increase or decrease of capital naturally tends to raise or lower the real quantity of industry, the number of productive hands, and consequently the exchangeable value of the annual product of the land and labour of the country—the real wealth and income of all its inhabitants.

Capital is increased by parsimony, and diminished by prodigality and misconduct.

Whatever a person saves from his income he adds to his capital, and either •uses it himself to maintain more

productive hands or •enables someone else to do so by lending it to him at interest, i.e. for a share of the profits. The capital of an •individual can be increased only by what he saves from his annual income or his annual gains, and the same holds for the capital of a •society, which is just the capital of all the individuals who compose it.

Parsimony, not industry, is the immediate cause of the increase of capital. Industry indeed provides the stuff that parsimony accumulates; but whatever industry might acquire, if parsimony did not save and store it the capital would never grow.

Parsimony, by increasing the fund destined for the maintenance of productive hands, tends to increase the number of those hands whose labour adds to the value of whatever it is they are working on. So it tends to increase the exchangeable value of the annual product of the country's land and labour. . . .

What is annually saved is as regularly consumed as what is annually spent, and nearly at the same time; but it is consumed by a different set of people. The portion of his income that a rich man annually **spends** is usually consumed by idle guests and domestic servants, who leave nothing behind in return for their consumption. The portion that he annually **saves**, because for the sake of the profit it is immediately employed as capital, is also consumed nearly at the same time, but by a different set of people: by labourers, manufacturers, and artificers, who reproduce with a profit the value of their annual consumption. . . .

[The annual savings of a frugal man, Smith says, constitute a perpetual fund for the support of an increasing number of productive hands. This is guaranteed not by law but by] a very powerful principle [see Glossary], namely the evident interest of every individual to whom any share of the fund ever belongs. If any part of it is ever employed to

maintain any but productive hands there will be an evident loss to the person who thus perverts it from its proper destination.

The prodigal perverts it in that way. By not confining his expense within his income, he encroaches on his capital. . . . By diminishing the funds destined for the employment of productive labour, he diminishes the quantity of the labour that adds a value to whatever it is that is worked on, and thus diminishes the value of the annual product of the land and labour of the whole country, the real wealth and income of its inhabitants. If the prodigality of some were not balanced by the frugality of others, the conduct of every prodigal would tend to beggar himself and indeed his country. [Smith adds that this is true whether the prodigal spends his money at home or abroad. He goes into some detail on this:]

This may be said:

'Because this expense is not on foreign goods and so doesn't involve any export of gold and silver, the same amount of money would remain in the country as before.'

Yes, but if the quantity of food and clothing thus consumed by unproductive hands had been distributed among productive ones, *they* they would have reproduced the full value of their consumption, plus a profit. So the same amount of money would have remained in the country as well as a reproduction of an equal value of consumable goods. There would have been two values instead of one.

Furthermore, the same amount of money can't long remain in any country where the value of the annual product is diminishing. The sole use of money is to circulate consumable goods. By means of it, provisions, materials, and finished work are bought and sold and distributed to their proper consumers. So the amount of money that can be annually employed in any country is limited by the value

of the consumable goods annually circulated within it. This value must go down if the annual product goes down, and that will reduce the amount of money that can be employed in circulating the goods. But money that is thrown out of domestic circulation in this way will not be allowed to lie idle. The interest of whoever owns it requires that it be employed; but having no employment at home it will be sent abroad and used to purchase consumable goods that may be of some use at home; and this will happen despite any laws prohibiting it.

In this way its annual export will for some time add to the annual consumption of the country something beyond the value of its own annual product. What in the days of its prosperity had been saved from that annual product and employed in purchasing gold and silver will contribute for some time to support its consumption in adversity. In this case the export of gold and silver is not the cause but the effect of the country's decline, and may even alleviate the misery of that decline for a while.

On the other hand, when the value of a country's annual product increases, the quantity of money it has also naturally increases. The value of the consumable goods annually circulated within the society being greater, more money will be needed to circulate them. So a part of the increased product will naturally be employed in purchasing the additional gold and silver needed for circulating the rest. In this case the increase of those metals will be the effect, not the cause, of the public prosperity. . . .

Thus, whatever we may imagine the real wealth and revenue of a country to consist in—whether in

- the value of the annual product of its land and labour, as plain reason seems to dictate, or in
- the quantity of the precious metals that circulate within it, as vulgar prejudices suppose

—either way, every prodigal appears to be a public enemy and every frugal man a public benefactor.

The effects of failure in projects are often the same as those of prodigality, because each . . . leads to some diminution in what would otherwise have been the productive funds of the society. But the circumstances of a large nation are seldom much affected by the prodigality or the misconduct of individuals, because the profusion or imprudence of some is always outweighed by the frugality and good conduct of others.

The principle that prompts a man to *spend* is the passion for present enjoyment. Though this is sometimes violent and hard to restrain, it is in general only momentary and occasional. But the principle that prompts a man to *save* is the desire to better his condition; and this, though generally calm and dispassionate, comes with us at birth and never leaves us until we die. It hardly ever happens that a man is so perfectly and completely satisfied with his situation as to be without any wish for any alteration or improvement. The means by which most men propose and wish to better their condition is the most common and the most obvious one, namely an increase of fortune; and the most likely way for anyone to increase his fortune is by saving and accumulating some part of what he acquires, either regularly and annually or on some extraordinary occasion. Thus, although the principle of expense prevails in almost all men sometimes and in some men almost always, in most men—taking the whole course of their life at an average—the principle of frugality seems not only to predominate but to predominate very greatly.

With regard to failure in business, the number of prudent and successful undertakings is everywhere much greater than that of injudicious and unsuccessful ones. After all our complaints of the frequency of bankruptcies, the unhappy

men who fall into this misfortune are only a very small part of the whole number engaged in trade and other sorts of business; perhaps no more than one in a thousand. Bankruptcy may be the greatest and most humiliating calamity that can befall an innocent man, so most men are sufficiently careful to avoid it. Some, indeed, do not avoid it; as some do not avoid the gallows.

Large nations are never impoverished by private prodigality and business failures, though they sometimes are by public ones. In most countries most of the public revenue is employed in maintaining unproductive hands, such as the people who compose a numerous and splendid court, a great ecclesiastical establishment, great fleets and armies; people who in time of peace produce nothing, and in time of war acquire nothing that can make up for the expense of maintaining them, even while the war lasts. Such people. . . are all maintained by the product of other men's labour. When there are too many of them, they may in a particular year consume so much of this product that they don't leave enough for maintaining the productive labourers who are to produce it again next year. In that case, the next year's product will be less than that of the current year, and if the same disorder continues, that of the third year will be still less than that of the second. Those unproductive hands. . . may consume so great a share of the whole revenue—thus obliging so many to encroach on their capital, i.e. on the funds meant for the maintenance of productive labour—that all the frugality and prudence of individuals cannot compensate for the waste and degradation of product occasioned by this violent and forced encroachment.

This frugality and prudence seems usually to be sufficient to outweigh not only the private prodigality and business failures of individuals but also the public extravagance of government. The uniform, constant, and uninterrupted effort of

every man to better his condition is the principle from which public and national (as well as private) affluence is originally derived; and it is often powerful enough to maintain the natural progress of things towards improvement, in spite of the extravagance of government and the greatest errors of administration. Like the unknown principle of animal life, it often restores health and vigour to the constitution in spite of the disease and of the absurd prescriptions of the doctor.

The annual product of a nation's land and labour can be increased in its value only by increasing either •the number of its productive labourers or •the productive powers of the labourers already employed. [Smith goes on to explain how each of these nearly always requires additional capital, so that when a nation's level of prosperity goes up fairly steadily over a long period of time, that will be because its capital has increased during that period. He illustrates this in terms of the over-all prosperity of England at the time of

- Caesar's invasion,
- 'the Saxon heptarchy',
- the Norman invasion,
- the wars of the Roses,
- the start of Elizabeth's reign,
- the restoration that put Charles II on the throne,
- his writing of this book.

He adds that there are ups and downs in a period that is over-all one of improvement. For example in the immediately preceding century:] The fire and the plague of London, two Dutch wars, the disorders of the revolution, the war in Ireland, four French wars, together with the two rebellions of 1715 and 1745. The four French wars set the nation back at least £200,000,000. . . . If those wars had not given this particular direction to so much capital, most of it would naturally have been employed in maintaining productive hands, whose labour would have replaced (with a profit) the

whole value of their consumption. . . . More houses would have been built, more lands would have been improved, and those that had been improved before would have been better cultivated; more manufactures would have been established, and those that had been established before would have been more extended. It is hard even to imagine the height to which the real wealth and revenue of the country might have been raised by now.

But though the great expense of government must have slowed the natural progress of England towards wealth and improvement, it has not been able to stop it. The annual product of its land and labour is undoubtedly much greater today present than it was either at the Restoration or at the Revolution of 1688. So the capital annually employed in cultivating this land and maintaining this labour must also be much greater. In the midst of all the demands of government, this capital has been silently and gradually accumulated by the private frugality and prudence of individuals—by their universal, continual, and uninterrupted effort to better their own condition. It is this effort, protected by law and allowed by liberty to exert itself in the most advantageous way, which has maintained the progress of England towards affluence and improvement at almost all former times, and which it is to be hoped will do so at all future times. Just as England has never been blessed with a very parsimonious government, so parsimony has never been the characteristic virtue of its inhabitants. So kings and ministers show the highest impertinence and presumption when they purport to watch over the economy of private people, and to restrain their expense either by sumptuary [see Glossary] laws or by prohibiting the import of foreign luxuries. They are themselves—always and with no exceptions—the greatest spendthrifts in the society. Let them look after their own expenses, and they can safely trust private people with theirs. If the extravagance of kings

and ministers does not ruin the state, that of their subjects never will.

Some modes of expense contribute more to the growth of public affluence than others.

The income of an individual may be spent in either of two ways: **(a)** in things that are consumed immediately, so that one day's expense can neither alleviate nor support that of another; or **(b)** in more durable things that can be accumulated, so that each day's expense can—as the person chooses—either alleviate or support and heighten the effect of the following day's. A man of fortune may **(a)** spend his income on a profuse and sumptuous table, and in maintaining many domestic servants and a multitude of dogs and horses; or, contenting himself with a frugal table and few attendants, **(b)** lay out most of his income in adorning his house or his country villa, in useful or ornamental buildings, in useful or ornamental furniture, in collecting books, statues, pictures; or in things more frivolous, jewels, baubles, ingenious trinkets of different kinds; or, what is most trifling of all, in amassing a great wardrobe of fine clothes. . . . If two men of equal fortune spent their income in these two ways—one each—the magnificence of **(b)** the person whose expense had been chiefly on durable commodities would be continually increasing, every day's expense contributing something to support and heighten the effect of that of the following day; whereas **(a)** that of the other would be no greater at the end of the period than at the beginning. The **(b)** man would also, at the end of the period, be the richer of the two. He would have a stock of goods of some kind; it might not be worth all that it cost, but it would always be worth something. No trace or vestige of the **(a)** man's expense would remain, and the effects of ten or twenty years' profusion would be as completely annihilated as if they had never existed.

Just as the **(b)** mode of expense is more favourable than the **(a)** one to the affluence of an individual, so is it also to that of a nation. The houses, the furniture, the clothing of the rich soon become useful to the lower and middling ranks of people, who can buy them when their superiors grow weary of them. [He gives examples, including:] The marriage-bed of James I of Great Britain, which his Queen brought with her from Denmark as a present fit for a sovereign to make to a sovereign, was recently the ornament of an alehouse at Dunfermline.

The expense that is laid out on **(b)** durable commodities is favourable not only to accumulation but also to frugality. If a person goes too far in it he can easily reform without exposing himself to the censure of the public. Not so with the **(a)** man: to reduce very much the number of his servants, to reform his table from great profusion to great frugality, to lay down his equipage after he has once set it up, are changes that cannot escape the observation of his neighbours, and are taken to imply some acknowledgement of preceding failure; which is why few of those who have launched out too far into this sort of expense have then had the courage to reform, until ruin and bankruptcy obliged them. But if a person has spent too much on building, furniture, books, or pictures, no imprudence or failure can be inferred from his changing his conduct. These are things in which further expense is often made unnecessary by former expense; and when the person stops short, he appears to do so not because he has exceeded his fortune but because he has satisfied his desires.

Also, the expense that is laid out on durable commodities usually maintains more people than does the expense that is employed in the profuse hospitality. Of 300 lb of provisions that may sometimes be served at a great festival, up to a half is thrown on the dunghill, and there is always a great deal wasted and abused. But if the expense of this entertainment

had been employed in setting to work masons, carpenters, upholsterers, mechanics etc., a quantity of provisions of equal value would have been distributed among far more people who would have bought them in pennyworths and pound weights, and not have lost or thrown away a single ounce. . . .

I am not saying that the **(b)** sort of expense always betokens a more liberal or generous spirit than the other. When a man of fortune spends his income chiefly in **(a)** hospitality, he shares most of it with his friends and companions; but when he employs it in **(b)** purchasing such durable commodities, he often spends it all on his own person, giving nothing to anyone else. So the **(b)** sort of expense, especially when directed towards frivolous objects—little ornaments of dress and furniture, jewels, trinkets, gew-gaws—often indicates a disposition that is not only trifling but also base and selfish. All that I am saying is that the **(b)** sort of expense is more conducive than the **(a)** sort to the growth of public affluence, because it always occasions some accumulation of valuable commodities, is more favourable to private frugality and consequently to the increase of public capital, and maintains productive rather than unproductive hands,

Chapter 4. Stock Lent at Interest

The stock that is lent at interest is always regarded as capital by the lender. He expects that in due time it will be restored to him, and that in the meantime the borrower will pay him an annual rent for the use of it. The borrower may use it either as capital, or as a stock reserved for immediate consumption. If he uses it as capital, he employs it in maintaining productive labourers, who reproduce the value with a profit; so that he can restore the capital and pay the interest, without alienating or encroaching on any other

source of income. If he uses it as a stock reserved for immediate consumption, he is acting the part of a prodigal, and in maintaining the idle dissipates what was destined for the support of the industrious. He cannot restore the capital or pay the interest without alienating or encroaching on some other source of income, such as the property or the rent of land.

The stock that is lent at interest is employed in the former of these ways much more often than in the latter. The man who borrows in order to spend will soon be ruined, and the lender will generally come to repent of his folly. [Smith goes on to say that that's why this kind of borrowing/lending is not very common. He continues:] The only people to whom stock is commonly lent without their being expected to make any very profitable use of it are country gentlemen who borrow on mortgage. Even they hardly ever borrow merely to spend. What they borrow, one may say, is commonly spent before they borrow it. They have generally consumed such a great quantity of goods, advanced to them on credit by shop-keepers and tradesmen, that they have to borrow at interest in order to pay the debt. The borrowed capital replaces the capital of those shop-keepers and tradesmen; it is borrowed not in order to be spent but in order to replace capital that had already been spent.

Almost all loans at interest are made in money, either of paper or of gold and silver; but what the borrower really wants, and what the lender provides, is not the money but the goods the money can buy. If he wants it as a stock for immediate consumption, it is those goods only that he can place in that stock. If he wants it as capital for employing industry, it is from those goods only that workers can be provided with the tools, materials, and maintenance needed for carrying on their work. By means of the loan the lender (as it were) assigns to the borrower his right to a certain

portion of the annual product of the land and labour of the country, to be employed as the borrower pleases.

The quantity of stock—or, as it is commonly expressed, the quantity of money—that can be lent at interest in any country is not regulated by

the value of the money, whether paper or coin, that serves as the instrument of the different loans made in that country,

but by

the value of the part of the annual product that . . . is destined for replacing capital that the owner does not care to be at the trouble of employing himself.

Because such capital is commonly lent out and paid back in money, it constitutes what is called 'the moneyed interest'. . . . But the money is (as it were) only the deed of assignment that conveys from one person to another those portions of capital that the owners do not care to employ themselves. Those portions may be almost any amount greater than the amount of the money that serves as the instrument of their conveyance, because the same pieces of money can successively serve for many loans as well as for many purchases. [He gives a detailed example, concluding:] Those loans may be all perfectly well secured, the goods purchased by the debtors being so employed that in due time they will bring back, with a profit, an equal value either of coin or of paper. And just as the same pieces of money can thus successively serve as the instrument of different loans, so they may likewise successively serve as the instrument of repayment.

As the share of the annual product that is destined for replacing capital increases in any country, the moneyed interest increases with it correspondingly. The increase of the portions of capital from which the owners wish to derive income without having the trouble of employing them

themselves naturally accompanies the general increase of capital—which is to say that as stock increases, the quantity of stock to be lent at interest gradually increases.

As the quantity of stock to be lent at interest increases, the interest inevitably diminishes, not only from the general causes that make the market price of things go down as their quantity goes up, but also from other causes which are special to this particular case. As capital increases in any country, the profits that can be made by employing capital necessarily diminish. It gradually becomes harder to find within the country a profitable way of employing new capital. So a competition arises between different owners of capital, with one trying to give his capital the employment that is occupied by someone else's; but on most occasions he can do this only by dealing on more reasonable terms. He must not only sell more cheaply what he deals in, but in order to get it to sell he must sometimes buy it dearer too. The demand for productive labour grows every day greater and greater because of the increase of the funds destined for maintaining it. Labourers easily find employment, but the owners of capital find it difficult to get labourers to employ. Their competition raises the wages of labour, and sinks the profits of stock. But when the profits that can be made by the use of capital are in this way diminished at both ends, so to speak, the price that can be paid for the use of it—i.e. the rate of interest—must be diminished with them.

[Smith opposes the view—held by Locke and Montesquieu and others—that the lowering of interest-rates throughout Europe was caused by the discovery of more gold and silver in the West Indies. He says that Hume has 'fully exposed' this 'fallacy', but devotes more than a page to his own refutation of it, his basic view being that if during a given period •the quantity of commodities annually circulated within a country remains the same while •the amount of money used to

circulate them increases, that increase makes only one trivial difference to the economy, namely making money cheaper.]

On the other hand, if •the quantity of commodities annually circulated within a country increases while •the amount of money that circulates in them remains the same, that will produce many important effects besides that of raising the value of the money. The country's capital might *nominally* be the same but would *really* be increased. [And so on.]

In some countries the interest on money has been prohibited by law. But as something can everywhere be *made by* the use of money, something ought everywhere to be *paid for* the use of it. This regulation, instead of preventing the evil of usury has been found from experience to increase it. [Smith's explanation boils down to this: because lending at interest is illegal, the lender is running an especially large risk, and the borrower has to compensate him for this by paying an extra-high rate of interest.]

In countries where interest is permitted, the law generally fixes the highest rate that can be taken without incurring a penalty, this being done to prevent the extortion of usury. This rate ought always to be somewhat above the lowest market price, i.e. the price that is commonly paid for the use of money by those who can give the most undoubted security. If this legal limit is fixed below the lowest market rate, the effects of this limit must be nearly the same as those of a total prohibition of interest. The creditor will not lend his money for less than the use of it is worth, and the debtor must pay him for the risk he runs in accepting the full value—above the legal limit—of that use. . . . In a country, such as Great Britain, where money is lent to government at 3% and to private people with good security at 4% or 4.5%, the present legal limit of 5% is perhaps, as proper as any.

The legal rate ought not to be *much* above the lowest market rate. If the legal rate of interest in Great Britain

were fixed at 8% or 10%, most of the money available for lending would be lent to prodigals and projectors [see Glossary], the only ones who would be willing to pay this high interest. Sober people who won't give for the use of money more than a *part* of what they are likely to make by the use of it would not venture into the competition. A great part of the capital of the country would thus be kept out of the hands that were most likely to make a profitable and advantageous use of it, and thrown into those that were most likely to waste and destroy it. Where the legal rate of interest is fixed at just a little above the lowest market rate, sober people are universally preferred as borrowers to prodigals and projectors. The person who lends money gets nearly as much interest from the former as he dares to take from the latter, and his money is in much safer hands. A great part of the country's capital is thus thrown into the hands in which it is most likely to be employed with advantage.

No law can reduce the common rate of interest below the lowest ordinary market rate at the time when that law is made. Despite the edict of 1766 by which the French king tried to reduce the rate of interest from 5% to 4%, money continued to be lent in France at 5%, the law being evaded in several ways.

The ordinary market price of land depends everywhere on the ordinary market rate of interest. The person who has capital from which he wishes to derive income without taking the trouble to employ it himself deliberates whether he should •buy land with it or •lend it out at interest. The greater security of land, together with some other advantages that almost everywhere come with this sort of property, will generally dispose him to settle for a smaller income from land than what he might have by lending his money at interest. These advantages compensate for a certain difference of income; but if the rent of land should fall very far short

of the interest on money, nobody would buy land, which would soon reduce its ordinary price. On the other hand if the advantages of land should *much* more than compensate for the difference, everyone would buy land, which again would soon raise its ordinary price. [He gives some figures illustrating this, from France and England.]

Chapter 5: The different uses of capital

Though all capital is destined for the maintenance of productive labour only, the amount of labour that equal portions of capital can put into motion varies extremely according to the diversity of their employment; as does likewise the value that such employment adds to the annual product of the country's land and labour.

Capital may be employed in four ways:

- (1) in procuring the rude product annually required for the use and consumption of the society—e.g. the improvement or cultivation of lands, mines, or fisheries;
- (2) in manufacturing and preparing that rude product for immediate use and consumption—this being the work of master manufacturers;
- (3) in transporting either the rude or the manufactured product from places where they abound to places where they are wanted—the work of wholesale merchants;
- (4) in dividing particular portions of either kind of product into such small parcels as suit the demands of those who want them—the work of retailers.

It is difficult to conceive that capital should be employed in any way that does not fall into one of those four categories.

Each of those four methods of employing capital is essentially necessary either to the existence or extension of the other three, or to the general convenience of the society.

(1) If capital were not employed in providing rude product to a certain level of abundance, neither manufactures nor trade of any kind could exist.

(2) If capital were not employed in manufacturing that part of the rude product that requires a good deal of preparation before it can be fit for use and consumption, either •it would never be produced because there would be no demand for it, or •it would be produced spontaneously, and so would be of no value in exchange and could add nothing to the wealth of the society.

(3) If capital were not employed in transporting the rude or manufactured product from places where it abounds to places where it is wanted, no more of either sort of product could be produced than would be consumed in the neighbourhood. The merchant's capital exchanges one place's surplus product for another's, and thus encourages the industry and increases the enjoyments of both.

(4) If capital were not employed in dividing certain portions either of rude or manufactured product into such small parcels as suit the occasional demands of those who want them, everyone would have to purchase more of the goods he wanted than his immediate occasions required. If there was no such trade as a butcher, for example, every man would have to purchase a whole ox or a whole sheep at a time. This would generally be inconvenient to the rich, and much more so to the poor. If a poor workman had to purchase six months' provisions at a time, much of the stock that he employs as capital in the instruments of his trade, or in the furniture of his shop, yielding him income, would have to go into the part of his stock that is reserved for immediate consumption and yields him no income. As things are, he can employ almost his whole stock as capital, and the benefits of this much more than compensate for the additional price that the retailer's profit imposes on the goods.

The prejudices of some political writers against shopkeepers and tradesmen are baseless. Taxing them or restricting their numbers is so far from being necessary that they *cannot* become so numerous as to hurt the public, though they may hurt one another. [He explains this, saying that the more retailers there are the more competition there will be among them, and so the lower their prices will be. He continues:] Their competition may ruin some of themselves; but taking care of this is the business of the parties concerned, and can safely be trusted to their discretion. . . . Some of them may decoy a weak customer to buy what he has no occasion for, but this evil is of too little importance to deserve the public attention, nor would it necessarily be prevented by restricting their numbers. For example, the general disposition to drunkenness among the common people arises not from the multitude of ale-houses but from other causes.

The persons whose capital is employed in any of those four ways are themselves productive labourers. Their labour, when properly directed, fixes and realizes itself in the saleable commodity on which it is bestowed, and generally adds to its price at least the value of their own maintenance and consumption. The profits of the farmer, the manufacturer, the merchant, and the retailer are all drawn from the price of the goods that the first two produce and the last two buy and sell. But equal amounts of capital employed in those four ways will immediately put into motion very different amounts of productive labour, and increase in very different proportions the value of the annual product of the land and labour of the society to which they belong.

The capital of the retailer replaces, together with its profits, that of the merchant from whom he purchases goods, and thereby enables him to continue his business. The retailer himself is the only productive labourer whom it immediately employs. His profits constitute the whole

value that its employment adds to the annual product of the society's land and labour.

The capital of the wholesale merchant replaces, together with their profits, the capital of the farmers and of the manufacturers from whom he purchases the rude and manufactured product that he deals in, thereby enabling them to continue their trades. It is chiefly by this service that he contributes indirectly to support the productive labour of the society, and to increase the value of its annual product. His capital employs too the sailors and carriers who transport his goods, and increases the price of those goods by the value not only of his profits but of their wages. This is all the productive labour that the merchant's capital immediately puts into motion, and all the value that it immediately adds to the society's annual product. Its operation in both these respects is a good deal superior to that of the retailer's capital.

Part of the capital of the master manufacturer is employed as •fixed capital in the instruments of his trade, and replaces, together with its profits, that of the artificer from whom he purchases them. Part of his •circulating capital is employed in purchasing materials, and replaces, with their profits, the capital of the farmers and miners from whom he purchases them. But a great part of it is always. . . .distributed among the workmen he employs. It increases the value of those materials by their wages, and by their master's profits on the whole stock of wages, materials, and instruments of trade employed in the business. So it puts immediately into motion a much greater quantity of productive labour, and adds a much greater value to the annual product of the society's land and labour, than an equal amount of capital in the hands of any wholesale merchant.

No equal capital puts into motion a greater quantity of productive labour than that of the farmer. His labouring

servants *and* his working cattle are productive labourers. In agriculture, also, nature labours along with man. Her labour costs nothing, but its product has its value as well as that of the most expensive workmen. The most important operations of agriculture seem to be intended partly to •increase fertility but much more to •direct the fertility of nature towards the production of the plants most profitable to man. A field overgrown with briars and brambles may produce as great a quantity of vegetables as the best cultivated vineyard or corn field. [Smith elaborates this, speaking of 'those powers of nature, the use of which the landlord lends to the farmer' and contrasting farming with manufacturing in which 'nature does nothing'. He concludes:] Of all the ways in which capital can be employed, its employment in agriculture is by far the most advantageous to the society.

The capital employed in the agriculture and in the retail trade of any society must reside within that society. Their employment is confined almost to a precise spot—the farm, the shop. And they must generally belong to resident members of the society, though there are exceptions to this.

The capital of a wholesale merchant, on the other hand, seems to have no fixed or necessary residence anywhere, but may wander from place to place according as it can buy cheap or sell dear.

The capital of the manufacturer must reside where the manufacture is carried on; but where this shall be is not always necessarily determined. It may be a long way from where the materials grow and from where the product is consumed. [He gives examples.]

It matters little whether the merchant whose capital exports the surplus product of a society is a native or a foreigner. If he is a foreigner, that reduces by *one* the number of the society's productive labourers, and reduces the society's annual product only by the profits of that one

man. . . . His capital gives a value to the society's product by exchanging it for something for which there is a demand at home, and his being a foreigner makes no difference to this. . . .

It matters more that the manufacturer's *capital* should reside within the country. It necessarily puts into motion a greater quantity of productive labour, and adds a greater value to the annual product of the society's land and labour. But it can be very useful to the country even if it doesn't reside within it. The capital of the British manufacturers who work up the flax and hemp annually imported from Baltic coast are surely very useful to the countries that produce them. Those materials are a part of the surplus product of those countries; and if that were not annually exchanged for something that is in demand there it would be of no value and would soon cease to be produced. The merchants who export it replace the capital of the people who produce it, and thereby encourage them to continue the production; and the British manufacturers replace the capital of those merchants.

A country may not have enough capital

- to improve and cultivate all its lands,
- to manufacture and prepare their whole rude product for immediate use and consumption, and
- to transport the surplus part of the rude the or manufactured product to distant markets where it can be exchanged for something for which there is a demand at home.

The inhabitants of many parts of Great Britain do not have enough capital to improve and cultivate all their lands. Much of the wool of the southern counties of Scotland is—after a long land transport through very bad roads—manufactured in Yorkshire, because of the lack of capital to manufacture it at home. In many little manufacturing towns in Great

Britain the inhabitants do not have capital sufficient to transport the product of their own industry to the distant markets where there is demand and consumption for it. Any merchants among them are really only the agents of wealthier merchants residing in greater commercial cities.

When the capital of any country is not sufficient for all those three purposes, the more of it that is put into •agriculture the greater will be the quantity of productive labour that it puts into motion within the country; •manufacturing comes second in this respect, and •the trade of export third. [So a country that hasn't enough capital for all three purposes, Smith says, should work to improve the situation by concentrating on agriculture. He continues:]

It has been the principal cause of the rapid progress of our American colonies towards wealth and greatness that almost all their capital has been employed in agriculture. They have no manufactures except for the household and coarser ones that necessarily accompany the progress of agriculture and are the work of the women and children in every private family. Most both of the export and coasting trade of America is conducted by the capital of merchants who live in Great Britain. Many of the stores and warehouses from which goods are retailed in some provinces, particularly in Virginia and Maryland, belong to merchants who live in the mother country. . . . If the Americans somehow stopped the importing of European manufactures, thus •giving a monopoly to such of their own countrymen as could manufacture similar goods and •diverting a considerable part of their capital into this employment, they would retard instead of accelerating the increase in the value of their annual product, and would obstruct instead of promoting their country's progress towards real wealth and greatness. This would be even more the case if they tried in the same way to monopolize to themselves their whole export trade.

The course of human prosperity seems hardly ever to have continued long enough to enable any large country to acquire enough capital for all those three purposes; unless we credit the wonderful accounts of the wealth and cultivation of China, of ancient Egypt, and of the ancient state of Indostan—the wealthiest countries (according to all accounts) that ever were in the world—and even they are chiefly renowned for their superiority in agriculture and manufactures, and do not appear to have been eminent for foreign trade. . . .

How much is added to a country's quantity of productive labour also depends considerably on what *sort* of wholesale trade any part of its capital is employed on.

All wholesale trade—all buying in order to sell again by wholesale—falls into three sorts:

- (1) the home trade, purchasing the product of the industry of a country in one part of the country and selling it in another;
- (2) the foreign trade of consumption, purchasing foreign goods for home consumption;
- (3) the carrying trade, transacting the commerce of foreign countries or carrying the surplus product of one to another

(1) Capital that is employed in purchasing the product of a country's industry in one part of the country in order to sell it in another generally replaces by every such operation two distinct lots of capital that had both been employed in the country's agriculture or manufactures, thus enabling them to continue that employment. When it sends out from the residence of the merchant a certain value of commodities, it generally brings back in return at least an equal value of other commodities. When both are the product of domestic industry, this operation replaces two distinct lots of capital which had both been employed in supporting productive

labour, thereby enabling them to continue that support. . . .

(2) Capital employed in purchasing foreign goods for home consumption, when this purchase is made with the product of domestic industry, also replaces two distinct lots of capital; but only one of them is employed in supporting domestic industry. The capital that sends British goods to Portugal and brings back Portuguese goods to Great Britain replaces by every such operation only one lot of British capital. The other is a Portuguese one. . . . [He adds some remarks about the relative slowness of income from such foreign trade.]

The foreign goods for home-consumption may sometimes be purchased not with the product of domestic industry but with some other foreign goods. These last, however, must have been purchased either immediately by the product of domestic industry or with something else that had been purchased by it; for foreign goods can never (except in war and conquest) be acquired except in exchange for something that had been produced at home, either immediately or through two or more exchanges. [He elaborates on the latter theme, concluding that] the capital employed in such a roundabout foreign trade of consumption will generally give less encouragement and support to the productive labour of the ·home· country than an equal amount of capital employed in a more direct trade of the same kind.

. . . .So far as the productive labour of the ·home· country is concerned, foreign trade of consumption using gold and silver has all the advantages *and* inconveniences of any other equally roundabout foreign trade of consumption. . . . It seems indeed to have one advantage over the others: because of their small bulk and great value, the transport of those metals is less expensive than that of almost any other foreign goods of equal value. Their freight is less, and their insurance not greater; and no goods are less liable to be damaged by transport. . . .

(3) The part of a country's capital that is employed in the carrying trade is altogether withdrawn from supporting its productive labour, and goes to support that of some foreign countries. Though it may by every operation replace two distinct lots of capital, neither of them belongs to the home country. The capital of a Dutch merchant that carries the corn of Poland to Portugal and brings back the fruits and wines of Portugal to Poland replaces by every such operation two lots of capital, neither of which had been employed in supporting the productive labour of Holland. . . . Only *the profits* return regularly to Holland, and constitute the whole addition that this trade necessarily makes to the annual product of the land and labour of that country. [Then some remarks about whether such trade contributes to the shipping of the home country. Smith says that it need not do so: the Dutch merchant might effect the commerce of Poland and Portugal by engaging the services of British ships.]

So the capital employed in a country's home trade will generally give encouragement and support to a greater quantity of productive labour in that country, and increase the value of its annual product more, than an equal amount of capital employed in the foreign trade of consumption; and the capital employed in this latter trade has in both these respects a still greater advantage over an equal amount of capital employed in the carrying trade. The riches and (so far as power depends on riches) the power of a country must always be in proportion to the value of its annual product, the fund from which all taxes must ultimately be paid. But the great object of the political economy of every country is to increase its riches and power. It ought therefore to give no preference to the •foreign trade of consumption above •home trade, or to the •carrying trade above either of those two. It ought neither to force nor to allure into either of those two channels a greater share of the capital of the country than

what would naturally flow into them of its own accord.

Each of those branches of trade, however, is not only advantageous but necessary and unavoidable when the course of things, without any constraint or violence, naturally introduces it.

When the product of any particular branch of industry exceeds what the demand of the country requires, the surplus must be sent abroad and exchanged for something for which there is a demand at home. If this is not done a part of the country's productive labour must cease, and the value of its annual product diminish. The land and labour of Great Britain generally produce more corn, woollens, and hardware than the demand of the home market requires. Only if the surplus is sent abroad and exchanged for something for which there is a demand at home can this surplus acquire a value sufficient to compensate for the labour and expense of producing it. What makes the neighbourhood of the sea-coast and the banks of navigable rivers advantageous situations for industry is just the fact that they facilitate the export and exchange of such surplus product for something that is more in demand there.

When the capital stock of a country rises so high that it cannot be all employed in supplying the country's consumption and supporting its productive labour, the surplus part of it naturally flows into the carrying trade and is employed in performing the same offices to other countries. The carrying trade is the natural •effect and symptom of great national wealth; but it does not seem to be the natural •cause of it. Those statesmen who have been disposed to favour it with particular encouragements seem to have mistaken the effect and symptom for the cause. Holland, in proportion to the extent of the land and the number of its inhabitants, is by far the richest country in Europe, and has accordingly the greatest share of the carrying trade of Europe. England,

perhaps the second richest country in Europe, is likewise thought to have a considerable share of it; though what is commonly taken to be England's carrying trade may often be found to be merely a roundabout foreign trade of consumption. . . .

The extent of the home trade and of the capital that can be employed in it is limited by the value of the surplus product of all the distant places within the country that have occasion to exchange their respective productions with one another. That of the foreign trade of consumption is limited by the value of the surplus product of the whole country and of what can be purchased with it. That of the carrying trade is limited by the value of the surplus product of all the countries in the world; so its possible extent is in a way infinite in comparison of that of the other two, and can absorb the greatest amount of capital.

The only motive that determines the owner of any capital to employ it in agriculture, in manufactures, or in some particular branch of the wholesale or retail trade is the consideration of his own private profit. The different quantities of productive labour that it may put into motion, and the different values that it may add to the annual product of the society's land and labour, never enter into his thoughts. Thus, in countries where agriculture is the most profitable of all employments, and farming and improving the most direct roads to a splendid fortune, the capital of individuals will

naturally be employed in the manner most advantageous to the whole society. But the profits of agriculture seem to have no superiority over those of other employments of capital in any part of Europe. In every corner of it in the past few years projectors [see Glossary] have entertained the public with magnificent accounts of the profits to be made by the cultivation and improvement of land. Without going into the details of their calculations, a simple observation may satisfy us that their conclusion must be false. We see every day the most splendid fortunes that have been acquired in the course of a single life by trade and manufactures, often from very little capital and sometimes from none. Nothing like that in agriculture has occurred in Europe during the present century. In all the great countries of Europe, however, much good land still remains uncultivated, and most of what is cultivated is far from being improved as much as it could be. Agriculture, therefore, is almost everywhere capable of absorbing much more capital than has ever yet been employed in it. What circumstances in the policy of Europe have given the trades that are carried on in towns so much advantage over the trade that is carried on in the country that private persons often find it more for their advantage to employ their capital in the most distant carrying trades of Asia and America than in the improvement and cultivation of the most fertile fields in their own neighbourhood? I shall try to answer this at length in the following two books.

Book III.**The different progress of affluence in different nations****Chapter 1: The natural progress of affluence**

The great commerce of every civilised society is what is carried on between the inhabitants of the town and those of the country. It consists in the exchange of rude for manufactured product, either immediately or by the intervention of money or of some sort of paper representing money. The country supplies the town with the means of subsistence and the materials of manufacture. The town pays for this by sending back a part of the manufactured product to the inhabitants of the country. The town, in which there cannot be any reproduction of substances, can properly be said to get its whole wealth and subsistence from the country. But we must not infer from this that the town's gain is the country's loss. The gains of both are mutual and reciprocal, and the division of labour in this—as in all other cases—is advantageous to all the persons employed in the various occupations into which it is subdivided. The inhabitants of the country purchase manufactured goods from the town with the product of much less of their own labour than they would have needed to make those goods themselves. . . . The greater the number and revenue of the inhabitants of the town, the larger is the market it provides to the inhabitants of the country; and the larger that market the more people it is advantageous to. . . . Compare the cultivation of the lands in the neighbourhood of any considerable town with that of lands at some distance from it and you will see how much the country is benefited by the commerce of the town. Among all the absurd speculations that have been propagated concerning the balance of trade, it has never

been claimed that the commerce between the country and the town brings a loss to either.

As subsistence naturally comes before convenience and luxury, so also the industry that procures the former must come before that which ministers to the latter. So the cultivation and improvement of the country (which provides subsistence) must come before the increase of the town (which furnishes only the means of convenience and luxury). It is the *surplus* product of the country only, i.e. what is over and above the maintenance of the cultivators, that constitutes the *subsistence* of the town, which can therefore increase only with the increase of this surplus product. The town may not always get its whole subsistence from the country in its neighbourhood, or even from the territory to which it belongs, but from very distant countries; and this, though it forms no exception to the general rule, has caused considerable variations in the progress of affluence in different ages and nations.

The order of things that necessity imposes in general, though not in every country, is in every country promoted by the natural inclinations of man. If human institutions had never thwarted those natural inclinations, no towns could have increased beyond what the improvement and cultivation of the territory in which they were situated could support, at least until such time as the whole of that territory was completely cultivated and improved. on equal or nearly equal profits, most men will choose to employ their capital on the improvement and cultivation of land rather than in either manufactures or foreign trade. The man who employs his capital in land has it more under his view and command,

and his fortune is much less liable to accidents, than that of the trader, who is often obliged to commit it to the winds and the waves and also to the more uncertain elements of human folly and injustice, by giving great credits in distant countries to men with whose character and situation he can seldom be thoroughly acquainted. Whereas the landlord's capital is fixed in the improvement of his land, and seems to be as well secured as the nature of human affairs can admit of. Also, the beauty of the country, the pleasures of a country life, the tranquillity of mind that it promises, and (where the injustice of human laws does not disturb it) the independence that it really provides, have charms that more or less attract everybody; and just as cultivating the ground was the original destination of man, so he seems always to have retained a predilection for this primitive employment.

Without the help of some artificers the cultivation of land cannot be carried on except with great inconvenience and continual interruption. The farmer often needs smiths, carpenters, wheelwrights, and plough-wrights, masons, and bricklayers, tanners, shoemakers, and tailors. And such artificers sometimes need help from one another; and because their residence is not necessarily tied to a precise spot (as the farmer's is), they naturally settle in one another's neighbourhood, thus forming a small town or village. The butcher, the brewer, and the baker soon join them, together with many other artificers and retailers who are necessary or useful for supplying their occasional wants and who contribute still further to the town's growth. [Smith goes into some detail about how town-people and country-people are 'one another's servants', concluding:] If human institutions had never disturbed the natural course of things, the progressive wealth and growth of the towns would everywhere be a result of, and proportional to, the improvement and cultivation of the territory or country.

In our North American colonies, where uncultivated land can still be had on easy terms, no manufactures for distant sale have been established in any of their towns. When an artificer in North America has acquired a little more stock than he needs for conducting his own business in supplying the neighbouring country, he does not use it to establish a manufacture for more distant sale, but employs it to purchase and improve uncultivated land. From artificer he becomes planter, and neither the large wages nor the easy subsistence which that country provides to artificers can bribe him to work for other people rather than for himself. He feels that •an artificer is the servant of his customers, from whom he derives his subsistence, whereas •a planter who cultivates his own land and gets his subsistence from the labour of his own family is really a master, and independent of all the world.

In countries where there is no uncultivated land that can be had on easy terms, every artificer who has acquired more stock than he can employ in the occasional jobs of the neighbourhood tries to prepare work for more distant sale. The smith erects some sort of iron factory, the weaver some sort of linen or woollen factory. Those manufactures gradually come to be subdivided, and thereby improved and refined in many ways. . . .

[Then a page contending that, other things being roughly equal, manufacturing is preferable to foreign commerce as a use for capital because it keeps the capital closer at hand than the other, and that for the same reason agriculture is preferable to manufacturing. And this order of preferability has also been, to some extent, the order in which societies have developed. Smith continues:]

But though this natural order of things must have taken place in some degree in every such society, in all the modern states of Europe it has been in many respects entirely

reversed. The foreign commerce of some of their cities has introduced all their finer manufactures, or such as were fit for distant sale; and manufactures and foreign commerce together have given birth to the main improvements of agriculture. The manners and customs that the nature of their original government introduced, and which remained after that government was greatly altered, necessarily forced them into this unnatural and retrograde order.

Chapter 2. The discouragement of agriculture in Europe after the fall of the Roman Empire

When the German and Scythian nations overran the western provinces of the Roman empire, the confusions that followed lasted for several centuries. The rapine and violence that the barbarians exercised against the former inhabitants interrupted the commerce between the towns and the country. The towns were deserted, and the country was left uncultivated, and the western provinces of Europe, which had enjoyed a considerable degree of affluence under the Roman empire, sank into the lowest state of poverty and barbarism. While those confusions continued, the chiefs and principal leaders of those nations acquired or usurped most of the lands of their countries. A great part of them was uncultivated; but no part of them, whether cultivated or not, was left without an owner. All of them were taken possession of, mostly by a few great proprietors.

This original taking of uncultivated lands was a great evil, but it might have been a merely transitory one if the lands had soon been divided again, broken into small parcels either by inheritance or by alienation [see Glossary]. The law of primogeniture blocked them from being divided by inheritance; the introduction of entails [see Glossary] prevented their being broken into small parcels by alienation.

When land is considered only as the means of **subsistence and enjoyment**, the natural law of succession divides it among all the children of the family, the subsistence and enjoyment of all of whom may be supposed equally dear to the father. The Romans followed this natural law of succession, making no more distinction between older and younger, between male and female, in the inheritance of lands than we do in the distribution of movables. But when land was considered also as the means of **power and protection**, it was thought better that it should descend undivided to one. In those disorderly times, every great landlord was a sort of petty prince. His tenants were his subjects. He was their judge, and in some respects their legislator in peace and their leader in war. He made war at his own discretion, often against his neighbours and sometimes against his sovereign. So the security of a landed estate—the protection its owner could provide to those who lived on it—depended on its size. To divide it was to ruin it, exposing every part of it to oppression and capture by the incursions of its neighbours. So the law of primogeniture came into effect, not immediately but in the course of time, in the succession of landed estates, for the same reason that it has generally held for the succession of monarchies, though not always at their first institution. For the power (and thus the security) of the monarchy not to be weakened by division, it must descend entire to one of the children, and *which* of them it goes to must be determined by some general rule based on some plain and evident difference that can admit of no dispute. Among the children of the same family, there can be no indisputable difference but those of sex and age. The male sex is universally preferred to the female; and when all other things are equal the older everywhere takes place of the younger. Hence the origin of the right of primogeniture, and of what is called 'lineal succession'.

Laws often continue in force long after the end of the circumstances that first gave rise to them and once made them reasonable. In Europe today the owner of a single acre of land is as perfectly secure in his possession as the proprietor of 100,000 acres. Yet the right of primogeniture continues to be respected, and is likely to endure for many centuries more, because of all institutions it is the fittest to support the pride of family distinctions. In every other respect nothing can be more contrary to the real interests of a numerous family than a right which in order to enrich one of the children beggars all the rest.

Entails are the natural consequences of the law of primogeniture. They were introduced to preserve a certain lineal succession, of which the law of primogeniture first gave the idea, and to hinder any part of the original estate from being carried out of the proposed line by giving, bequeathing or selling—by the folly or misfortune of any of its successive owners. . . .

When great landed estates were a sort of principalities, entails might not be unreasonable; they might often prevent the security of thousands from being endangered by the caprice or extravagance of one man. But in the present state of Europe, when all estates get their security from the laws of their country, entails are absurd. They are based on the most absurd of all suppositions, namely this:

It is not the case that every successive generation of men have an equal right to the earth and to all that it possesses. The property of the present generation should be restrained and regulated according to the wishes of people who died perhaps 500 years ago.

Yet entails are still respected through most of Europe, especially in countries where noble birth is a necessary qualification for the enjoyment either of civil or military honours. Entails are thought necessary for maintaining this exclusive

privilege of the nobility to the great offices and honours of their country; and the nobility having usurped one unjust advantage over the rest of their fellow-citizens (·offices and honours·), it is thought reasonable that they should have another (·land·), lest their poverty should make the first one ridiculous.

. . . .It seldom happens that a great proprietor is a great improver. In the disorderly times that gave birth to those barbarous institutions, the great proprietor was busy enough defending his own territories or encroaching on those of his neighbours. He had no leisure to attend to the cultivation and improvement of land. When the establishment of law and order gave him this leisure, he often lacked the inclination and almost always lacked the needed abilities. If the expense of his house and person equalled or exceeded his income (as it often did), he had no stock to employ in this manner. If he was an economist [here = 'someone who gave some thought to how his money was being spent'], he generally found it more profitable to employ his annual savings in new purchases than in the improvement of his old estate. To improve land with profit, like all other commercial projects, requires exact attention to small savings and small gains, and few men born to great fortunes are capable of this, even if they are naturally frugal. The situation of such a person naturally disposes him to attend to ornament that pleases his fancy rather than to profit for which he has so little need. The elegance of his dress, of his equipage, of his house, and household furniture, are things he has been accustomed from his infancy to have some anxiety about. The turn of mind that this habit naturally forms follows him when he comes to think of the improvement of land. . . . In both parts of the united kingdom there are still some great estates that have continued without interruption in the hands of the same family since the times of feudal anarchy. Compare the

present condition of those estates with the possessions of the small proprietors in their neighbourhood and you will need no other argument to convince you of how unfavourable to improvement such extensive property is.

The occupiers of the land were not likely to improve it, as they were slaves attached to the land and incapable of acquiring property. Still less was to be hoped for from those who occupied the land under them. In the ancient state of Europe, the occupiers of land were all tenants at will [i.e. tenants who could be evicted without notice]. They were all or almost all slaves, though their slavery was milder than that known among the ancient Greeks and Romans, or even in our West Indian colonies. They were supposed to belong more directly to the land than to their master: they could be sold with it, but not separately from it. They could marry, provided it was with the consent of their master; and he could not afterwards dissolve the marriage by selling the man and wife to different persons. If he maimed or murdered any of them, he was liable to some penalty, though generally only a small one. They could not acquire property: anything they acquired was really acquired for their master, who could take it from them at pleasure. . . . This species of slavery still exists in Russia, Poland, Hungary, Bohemia, Moravia, and other parts of Germany. It is only in the western and south-western provinces of Europe that it has gradually been abolished altogether.

But if great improvements are seldom to be expected from great proprietors, they are least of all to be expected when they employ slaves for their workmen. The experience of all ages and nations, I believe, demonstrates that the work done by slaves, though it appears to cost only their maintenance, is in the end the most expensive of any. A person who cannot acquire any property can have no interest except to eat as much and work as little as possible. Any work he does

beyond what is sufficient to purchase his own maintenance can be squeezed out of him only by violence and not by any interest of his own. Pliny and Columella both comment on how much the cultivation of corn degenerated in ancient Italy, how unprofitable it became to the master, when it fell under the management of slaves. . . .

The pride of man makes him love to domineer, and nothing mortifies him so much as to have to *persuade* his inferiors to do something. Wherever the law allows it and the nature of the work can afford it, therefore, he will generally prefer the service of slaves to that of freemen. The planting of sugar and tobacco can afford the expense of cultivation by slaves. The raising of corn in the present times apparently cannot. In the English colonies whose principal product is corn most of the work is done by freemen. The recent resolution of the Quakers in Pennsylvania to free all their negro slaves may satisfy us that their number cannot be very great. If slaves had been a considerable part of their owners' property, such a resolution would never have been agreed to. On the other hand, in our sugar colonies the whole work—and in our tobacco colonies a great part of it—is done by slaves. [He adds that sugar is more profitable than tobacco, which is why there are more 'negroes' in proportion to 'whites' in the sugar colonies than in the tobacco ones.]

The slave cultivators of ancient times were gradually succeeded by a species of farmers known at present in France by the name of *métayers*. I know no English name for them. The proprietor provided them with the seed, cattle, and instruments of husbandry—i.e. the whole stock needed for cultivating the farm. The product was divided equally between the proprietor and the farmer, after setting aside what was judged necessary for keeping up the stock, which was restored to the proprietor when the farmer either left or was turned out of the farm. [Smith explains at length why

this system—'villeinage in tenure'—was also not conducive to the assiduous improvement of land.]

This species of tenancy was slowly succeeded by farmers, properly so called, who cultivated the land with their own stock, paying a rent certain to the landlord. When such farmers have a lease for a term of years they may find it in their interest to lay out part of their capital in the further improvement of the farm; because they may expect to recover it, with a large profit, before the lease expires. But even these farmers' hold on the land was for many years extremely precarious, and in many parts of Europe it still is. [Smith states the conditions under which a lease could legally be cancelled, and reports the history of attempts to provide redress for this. This has been done best in England, where a further factor also came into play:] In England a lease for life of 40/- a year value is a freehold, and entitles the lessee to vote for a member of parliament; and as a great part of the yeomanry have freeholds of this kind the whole order of yeomen becomes respectable to their landlords on account of the political consideration that this gives them. . . . The laws and customs so favourable to the yeomanry may have contributed more to the present grandeur of England than all their boasted regulations of commerce taken together.

The law which secures the longest leases against successors of every kind is, so far as I know, peculiar to Great Britain. It was introduced into Scotland so early as 1449, by a law of James II. Its beneficial influence, however, has been much obstructed by entails; the heirs of entail being generally restrained from letting leases for any long term of years. A recent act of parliament has somewhat slackened these fetters, though they are still far too tight. In Scotland, besides, as no leasehold gives a vote for a member of parliament, the yeomanry are on this account less respectable to their landlords than in England.

[In other parts of Europe, Smith reports, leases are somewhat protected but not for long enough to encourage much improvement of the land. This was against the real interests of the landlords, but 'avarice and injustice are always short-sighted'.]

The farmers, besides paying the rent, used to be bound to perform many services for the landlord. These were seldom specified in the lease or regulated by any precise rule, but were determined by the local custom. . . . In Scotland the abolition of all services not precisely stipulated in the lease has within a few years very much altered for the better the condition of the yeomanry of that country.

The public services to which the yeomanry were bound were at least as arbitrary [see Glossary] as the private ones. One was making and maintaining the high roads, a servitude that I think still exists everywhere, though with different degrees of oppression in different countries. There were others. When the king's troops, household or officers of any kind passed through any part of the country, the yeomanry were bound to provide them with horses, carriages, and provisions, at a price regulated by the provider. Great Britain is, I believe, the only monarchy in Europe where this oppression has been entirely abolished. It still exists in France and Germany.

The public taxes to which they were subject were as irregular and oppressive as the services. The ancient lords, though extremely unwilling to grant any pecuniary aid to their sovereign, had no objection to his imposing 'tallage' on their tenants, and did not know enough to foresee how much this must eventually affect their own income. The *taille*, as it still exists in France, may serve as an example of those ancient tallages.

It is a tax on the supposed profits of the farmer, which they estimate by the stock that he has on the farm. It is

in his interests, therefore, to appear to have as little as possible, and consequently to employ as little as possible in cultivating the farm and none in improving it. Should any stock happens to accumulate in the hands of a French farmer, the *taille* is almost equal to a prohibition of its ever being employed on the land. [Smith adds that subjection to the *taille* is regarded as degrading, which places a further obstacle to any stock's being employed on improving land.]

Under all these discouragements, little improvement could be expected from the occupiers of land, .i.e. the farmers who don't own the land that they farm. Those people, with all the liberty and security that law can give, must always improve under great disadvantages. The farmer compared with the proprietor is like a merchant who trades with borrowed money compared with one who trades with his own. The stock of both may improve, but if they conduct their businesses equally well the former must always progress more slowly than that of the other because of the large share of his profits which is consumed by the interest on the loan. In the same way, the lands cultivated by the farmer must be improved more slowly than those cultivated by the proprietor, because of the large share of the product that is consumed in the rent, and which could have been employed in the further improvement of the land if the farmer had been the proprietor. [Smith adds another reason why 'little stock is likely to go from any other profession to the improvement of land in the way of farming', namely the fact that throughout Europe the move from almost anything to being a farmer would be generally regarded as socially a step downwards.]

... The ancient policy of Europe has been unfavourable to the improvement and cultivation of land, whether by the proprietor or by the farmer: first by the general prohibition of the export of corn without a special licence, which seems to have been a very universal regulation; and secondly by

restraints laid by absurd on the inland commerce of corn and of almost every other part of the farm's product. . . .

Chapter 3. The rise and progress of cities and towns after the fall of the Roman Empire

After the fall of the Roman empire the inhabitants of cities and towns were not more favoured than those of the country. They consisted, indeed, of a very different order of people from the first inhabitants of the ancient republics of Greece and Italy. These were composed chiefly of the land-proprietors among whom the public territory was originally divided, and who found it convenient to build their houses close together and to surround them with a wall for the sake of common defence. After the fall of the Roman empire, on the other hand, the proprietors of land seem generally to have lived in fortified castles on their own estates, surrounded by their own tenants and dependants. The towns were chiefly inhabited by tradesmen and mechanics, who seem in those days to have been of servile condition or something close to it. The privileges that we find granted by ancient charters to the inhabitants of some of the principal towns in Europe show well enough what they were before those grants. The people to whom it is granted as a privilege

- that they might give their daughters in marriage without the consent of their lord,
- that on their death their goods should be inherited by their own children and not by their lord, and
- that they might dispose of their own effects by will,

must before those grants have been exactly or nearly in the same state of villeinage as the occupiers of land in the country.

They seem to have been a very poor set of people who used to travel with their goods from place to place, and from fair to

fair, like today's hawkers and pedlars. In all the countries of Europe back then, as in several of the Tatar governments of Asia at present, taxes were levied on the persons and goods of travellers when they •passed through certain manors, •went over certain bridges, •carried their goods from place to place in a fair, •erected in it a booth or stall to sell them in. . . . Sometimes the king—or a great lord who apparently had authority to do this on some occasions—would grant to particular traders. . . . a general exemption from such taxes. Such traders, though in other respects of nearly servile condition, were on this account called 'free-traders'. They in return usually paid to their protector a sort of annual poll-tax, which might be considered as compensation for what their patrons might lose by their exemption from other taxes. At first, both those poll-taxes and those exemptions seem to have been altogether personal, and to have affected only particular individuals for their lifetimes or during the pleasure of their protectors. . . .

[Smith now offers a quite long and complex account of a process by which towns throughout Europe gradually came to have the status of 'free burghs'. Such a town would be empowered to collect its revenue from its inhabitants, in return paying the sovereign a 'rent certain' [see Glossary]. This was known as a 'farm rent', a payment for being allowed to 'farm' the town taxes. In time such towns also came to have various other aspects of self-government. Then:]

It must seem extraordinary that the sovereigns of all the countries of Europe should in this way have exchanged for a rent certain, never to be increased, the branch of their revenue that may have been the most likely of all to be improved in the natural course of things, without either expense or attention of their own; and that they should in this way have voluntarily erected a sort of independent republics in the heart of their own dominions.

To understand this, remember that in those days no European sovereign, probably, was able to protect through the whole extent of his dominions the weaker part of his subjects from the oppression of the great lords. Those whom the law could not protect, and who were not strong enough to defend themselves, were obliged either to •seek the protection of some great lord in return for becoming his slaves or vassals; or to •enter into a league of mutual defence for the common protection of one another. The inhabitants of cities and burghs, considered as single individuals, had no power to defend themselves; but by entering into a league of mutual defence with their neighbours they could set up a considerable resistance. The lords despised the burghers, whom they considered not only as of a different order, but as a parcel of emancipated slaves—almost of a different species from themselves. The wealth of the burghers never failed to provoke their envy and indignation, and they plundered them on every occasion without mercy or remorse. The burghers naturally hated and feared the lords. The king hated and feared them too; but though he might despise the burghers he had no reason to hate or fear them. Mutual interest, therefore, disposed them to support the king, and the king to support them against the lords. They were the enemies of his enemies, and it was in his interests to make them as secure and independent of those enemies as he could. By granting them magistrates of their own, the privilege of making bye-laws for their own government, building walls for their own defence, and bringing all their inhabitants under a sort of military discipline, he gave them all the means of security, and independence of the barons, that it was in his power to bestow. . . .

The princes [see Glossary] who were on the worst terms with their barons seem accordingly to have been the most liberal in grants of this kind to their burghs. King John of

England, for example, appears to have been a most prolific benefactor to his towns. Philip I of France lost all authority over his barons. Towards the end of his reign, his son Louis consulted with the bishops of the royal demesnes concerning the most proper means of restraining the violence of the great lords. Their advice consisted of two proposals:

- (1) Set up a new order of jurisdiction by establishing magistrates and a town council in every considerable town in his demesnes.
- (2) Form a new militia by making the inhabitants of those towns, under the command of their own magistrates, march out to the assistance of the king on proper occasions.

It is from this period [12th century] that we are to date the institution of the magistrates and councils of cities in France. It was during the unprosperous reigns of the princes of the house of Swabia that most of the free towns of Germany received the first grants of their privileges, and that the famous Hanseatic league first became formidable.

The militia of the cities in those times seems not to have been inferior to that of the country, and as they could be more readily assembled on any sudden occasion they often had the advantage in their disputes with the neighbouring lords. In countries like Italy and Switzerland, where the sovereign came to lose the whole of his authority (because of their distance from the principal seat of government, or the natural strength of the country itself, or some other reason), the cities generally became independent republics, and conquered all the nobility in their neighbourhood; making them pull down their castles in the country and live like other peaceable inhabitants in the city. This is the short history of the republic of Berne, as of several other cities in Switzerland. It is the history of nearly all the considerable Italian republics, so many of which arose and perished between the end of the

12th and the beginning of the 16th century (the exception being Venice, whose history is somewhat different).

In countries such as France or England, where the authority of the sovereign (though often very low) was never destroyed, the cities had no opportunity of becoming entirely independent. But they became so considerable that the sovereign could impose no tax on them, apart from the farm-rent described above, without their own consent. So they were called on to send deputies to the general assembly of the states of the kingdom, where they might join with the clergy and the barons in granting some special aid to the king on urgent occasions. . . . Hence the origin of the representation of burghs in the states general of all the great monarchies in Europe.

Order and good government, and along with them the liberty and security of individuals, were in this way established in cities at a time when the occupiers of land in the country were exposed to every sort of violence. But men in this defenceless state naturally content themselves with earning just enough to live, because acquiring more might only tempt the injustice of their oppressors. Whereas when men are sure of enjoying the fruits of their industry, they naturally exert it to better their condition and to acquire not only the necessities but also the conveniences and elegances of life. So the industry that aims at something more than bare survival was established in cities long before it was commonly practised by the occupiers of land in the country. If a little stock were to accumulate in the hands of a poor cultivator, oppressed with the servitude of villeinage, he would naturally conceal it from his master to whom it would otherwise have belonged, and take the first opportunity of running away to a town. In those days the law was so indulgent to the inhabitants of towns, and so desirous of lessening the authority of the lords over the inhabitants of

the country, that if he could conceal himself there from the pursuit of his lord for a year, he was free for ever. Thus, whatever stock accumulated in the hands of the industrious part of the inhabitants of the country naturally took refuge in cities, as the only sanctuaries in which it could be secure for the person who acquired it.

[Then a paragraph about the advantages for trade of cities on the sea-coast or on navigable rivers; followed by several pages on foreign trade, mostly repeating things already said in Book I, chapter 10.]

Chapter 4: How the commerce of the towns contributed to the improvement of the country

The increase and riches of commercial and manufacturing towns contributed in three ways to the improvement and cultivation of the countries to which they belonged.

(1) By providing a great and ready market for the rude product of the country they encouraged its cultivation and further improvement. This benefit was not confined to the countrysides in which they were situated, but could extend to all those with which they had any dealings, though to the more distant ones the costs of transport reduced the benefit.

(2) The wealth acquired by the inhabitants of cities was often employed in purchasing lands that were for sale, of which a great part would often be uncultivated. Merchants are commonly ambitious to become country gentlemen, and when they do they are generally the best of all land-improvers. A merchant is accustomed to employing his money chiefly in profitable projects, whereas a mere country gentleman is accustomed to employing it chiefly in expense. The former often sees his money go from him and return with a profit; the latter seldom expects to see his money again once he has parted with it. Those different habits naturally affect

their temperament and disposition in every sort of business. A merchant is commonly a bold undertaker [see Glossary], a country gentleman a timid one. The one is not afraid to lay out a great deal of capital all at once on the improvement of his land if he has a good chance of raising the value of the land in proportion to the expense. The other, *if* he has any capital, seldom ventures to employ it in this manner. If he improves his land at all, it is commonly not with capital but with what he can save out of his annual income. . . . Also, mercantile business naturally gives a merchant habits of order, economy and attention, which make him much fitter to carry out any project of improvement with profit and success.

(3) Commerce and manufactures gradually introduced order and good government, and with them the liberty and security of individuals, among the inhabitants of the country who had previously lived almost in a continual state of •war with their neighbours and •servile dependence on their superiors. This, though it has been the least observed, is by far the most important of all their effects. Mr Hume is, as far as I know, the only writer to have taken notice of it.

Before foreign commerce and fine manufactures are introduced, a great proprietor—having nothing for which he can exchange most of the product of his lands except for the maintenance of the cultivators—consumes it all in rustic hospitality at home. If this surplus product is enough to maintain a hundred or a thousand men, he can use it only in maintaining a hundred or a thousand men. So he is always surrounded with a multitude of retainers and dependants who must obey him, for the same reason that soldiers must obey the prince who pays them, namely because they have nothing to give in return for their maintenance and are being fed entirely by his bounty. Before the extension of commerce and manufactures in Europe, the hospitality of the rich

and the great—from the sovereign down to the most minor baron—exceeded everything that we today can easily form a notion of. [He gives some startling examples.]

The occupiers of land were in every respect as dependent on the great proprietor as his retainers were. Even those of them who were not in a state of villeinage were tenants at will, who paid only a quit-rent, i.e. a rent that was nowhere near equivalent to the subsistence that the land provided them. Some years ago in the highlands of Scotland a common rent for lands that maintained a family would be a crown, half a crown, a sheep, a lamb. In some places it is so at this day. . . . In a district where the surplus product of a large estate must be consumed on the estate itself, it will often be more convenient for the proprietor that part of it be consumed at a distance from his own house, which saves him from the embarrassment of too large a company or too large a family; but he will do this only if those who consume it are as dependent on him as his retainers or domestic servants. A tenant at will, who occupies enough land to maintain his family and pays little more than a quit-rent, is as dependent on the proprietor as any servant or retainer, and must be equally obedient to the proprietor. . . .

The power of the ancient barons was based on the authority that the great proprietors had over their tenants and retainers in the state of affairs I have described. They inevitably became the judges in peace, and the leaders in war, of all who dwelt on their estates. They could maintain order and apply the law within their respective domains because each of them could there turn the whole force of all the inhabitants against the injustice of any one. No other person had enough authority to do this. The king in particular had not. Back then he was little more than the greatest proprietor in his dominions, to whom the other great proprietors paid certain respects for the sake of common defence against their

common enemies. If he had tried by his own authority to enforce a law—e.g. enforcing payment of a small debt—within the lands of a great proprietor, where all the inhabitants were armed and accustomed to stand by one another, he would have found himself in extreme trouble. So through most of the country he had to leave the administration of justice to those who were capable of administering it; and for the same reason to leave the command of the country militia to those whom that militia would obey.

Several centuries before even the feudal law was even mentioned in Europe, the great proprietors of land possessed allodially [see Glossary] the highest jurisdictions both civil and criminal, and the power of levying troops, of coining money, and even of making bye-laws for the government of their own people. The authority and jurisdiction of the Saxon lords in England seem to have been as great before the conquest as that of any of the Norman lords after it, and the feudal law is thought not to have become the common law of England until after the conquest. [Smith adds some details.]

The introduction of the feudal law, so far from extending the authority of the great allodial lords, can be seen as an attempt to moderate it. It established a regular subordination, accompanied with a long train of services and duties, from the king down to the smallest proprietor. During the childhood of the proprietor, the rent and the management of his lands fell into the hands of his immediate superior, and thus for all great proprietors into the hands of the king. He was charged with the maintenance and education of the pupil, and from his authority as guardian was taken to have a right of disposing of him in marriage, provided it was in a manner suitable to his rank. But though this institution necessarily tended to strengthen the authority of the king and weaken that of the great proprietors, it could not do either sufficiently to establish order and good government

among the inhabitants of the country, because it could not alter sufficiently the state of property and manners from which the disorders arose. The authority of government still continued to be too weak in the head and too strong in the lower parts of the body, the excessive strength of the latter being the *cause* of the weakness of the head. After the institution of feudal subordination, the king was as incapable of restraining the violence of the great lords as before. They still continued to make war at their own choice, almost continually on one another and very often on the king; and the open countryside still continued to be a scene of violence, rapine, and disorder.

But what could never have been brought about by the violence of the •feudal institutions was gradually brought about by the silent and insensible operation of •foreign commerce and manufactures. These gradually provided the great proprietors with something they could get in exchange for the whole surplus product of their lands, something they could consume themselves without sharing it with tenants or retainers. *All for ourselves and nothing for other people* seems at every time to have been the vile maxim of the masters of mankind. So as soon as they could find a way of consuming the whole value of their rents themselves, they were not inclined to share them with anyone else. For something as frivolous and useless as a pair of diamond buckles they exchanged the maintenance—i.e. the price of the maintenance—of a thousand men for a year, and with it the whole weight and authority that this could have given them. But the buckles were to be all their own, and no other human creature was to have any share of them; whereas in the older system they had to share them with at least a thousand people. With the judges that were to determine the preference—namely the great proprietors themselves—this difference was perfectly decisive! Thus, for the gratification

of the most childish, mean and the sordid of all vanities, they gradually bartered away their whole power and authority.

In the present state of Europe a man with £10,000 a year can and generally does spend his whole income without *directly* maintaining twenty people, or being able to command more than ten footmen not worth commanding. He may *indirectly* maintain as many people as he could have done under the old system—as many or even more. He exchanges his whole income for a very small quantity of precious productions, but very many workmen must have been employed in collecting and preparing them. [Smith goes on to say that the rich man is indirectly contributing to paying the wages of those workers, the profits of their employers, and so on. But they all have many customers other than him, so that they can be maintained without him in particular, and thus are not absolutely dependent on him.]

The great proprietors' personal expenses having gradually increased in this way, it was inevitable that the number of their retainers should gradually diminish, until at last they were all dismissed. The same cause gradually led to the dismissal of the unnecessary part of the proprietors' tenants. Farms were enlarged, and—despite complaints of depopulation—the occupiers of land were reduced to the number necessary for cultivating it according to the imperfect state of cultivation and improvement in those times. By removing the unnecessary mouths and getting from the farmer the full value of the farm, a greater surplus—i.e. the price of a greater surplus—was obtained for the proprietor, which the merchants and manufacturers soon provided him with a way of spending on his own person in the same way as he had done the rest. The same cause continuing to operate, he wanted to raise his rents above what his lands could provide in the actual state of their improvement. His tenants could agree to this only on condition that they

should be secured in their possession for enough years for them to recover with profit whatever they spent on the further improvement of the land. The expensive vanity of the landlord made him willing to accept this condition; and hence the origin of long leases.

Retainers being dismissed, the great proprietors could no longer interrupt the regular execution of justice or disturb the peace of the country. Having sold their birth-right, not like Esau for a mess of pottage in time of hunger and necessity [Genesis 25:30-34], but in the wantonness of plenty, for trinkets and baubles that were fit to be the playthings of children rather than the serious pursuits of men, they became as insignificant as any substantial burgher or tradesman in a city. A regular government was established in the country as well as in the city, with nobody having power to disturb its operations in the one any more than in the other.

In this way a revolution was very gradually brought about by two orders of people who had not the least intention to serve the public. The sole motive of the great proprietors was to gratify the most childish vanity. What moved the merchants and artificers was much less ridiculous: they acted merely with an eye to their own interests, following their own pedlar principle of earning a penny wherever a penny was to be earned. Neither group had any knowledge or foresight of the great revolution that the folly of the one and the industry of the other was gradually bringing about.

That is how through most of Europe the commerce and manufactures of cities has been the cause—not the effect—of the improvement and cultivation of the country.

This order of events, being contrary to the natural course of things, is necessarily both slow and uncertain. Compare •the slow progress of the European countries whose wealth depends very much on their commerce and manufactures with •the rapid advances of our North American colonies,

whose wealth is entirely based on agriculture. Through most of Europe it is thought that the number of inhabitants can't double in less than 500 years, whereas in several of our North American colonies it is found to double in 25 years. In Europe •the law of primogeniture and various kinds of perpetuities [see Glossary] prevent the division of great estates, and thereby prevent the multiplication of small proprietors. But a small proprietor, who knows every part of his little territory and views it all with the affection that property (especially small property) naturally inspires, and who therefore takes pleasure not only in cultivating but in adorning it, is generally of all improvers the most industrious, the most intelligent, and the most successful. Also, •those same regulations keep so much land out of the market that there is always more capital to buy land than there is land to sell, so that what is sold always sells at a monopoly price. The rent never pays the interest of the purchase-money. . . . To purchase land is everywhere in Europe a most unprofitable employment of a small amount of capital. . . . A young man who, instead of applying to trade or to some profession, employs a capital of (say) £3,000 in buying and cultivating of a small piece of land, might expect to live very happily and independently, but must bid adieu for ever to all hope of either great fortune or great eminence, which he would have had some chance of acquiring by a different employment of his stock. . . . In North America, on the other hand, £60 is often a sufficient stock to begin a plantation with. There the purchase and improvement of uncultivated land is the most profitable employment of small as of great lots of capital, and the most direct road to all the fortune and eminence that can be acquired in that country. . . .

England, because of the natural fertility of the soil, the length of its sea-coast, and the many navigable rivers that run through it. . . ., may be as well fitted by nature as any

large country in Europe to be the seat of foreign commerce, of manufactures for distant sale, and of all the improvements these can lead to. Also, from the beginning of the reign of Elizabeth the English legislature has been specially attentive to the interests of commerce and manufactures; there is in fact no country in Europe—not even Holland—where the law is more favourable on the whole to this sort of industry. So commerce and manufactures have continually advanced during all this period. No doubt the cultivation and improvement of the country has gradually advanced too; but it seems to have followed slowly, and at a distance, the more rapid progress of commerce and manufactures. Much of the country is still uncultivated, and what is cultivated is much inferior to what it might be. The law of England, however, favours agriculture not only indirectly by the protection of commerce but by several direct encouragements. Except in times of scarcity, the export of corn is not only free but encouraged by a bounty [see Glossary]. In times of moderate plenty, the import of foreign corn is loaded with duties that amount to a prohibition. The import of live cattle has been prohibited at all times except from Ireland (a recent exception). So those who cultivate the land have a monopoly on the two greatest and most important articles of land product, bread and butcher's meat. These encouragements (though basically altogether illusory, as I shall try to show later) sufficiently demonstrate at least the good intention of the legislature to favour agriculture. But much more important than all of them is the fact that the yeomanry of England are made as secure, as independent, and as respectable as law can make them. No country, therefore, in which the right of primogeniture takes place, which pays tithes, and where perpetuities, though contrary to the spirit of the law, are admitted in some cases, can give more encouragement to agriculture than England. Yet the state of its cultivation

is as I have described. What would it have been if the law had given no direct encouragement to agriculture besides what arises indirectly from the progress of commerce, and had left the yeomanry in the same condition as in most other countries of Europe?

[Smith mentions France and Portugal as countries that engage in a fair amount of foreign trading, but that for various reasons have not greatly improved their agricultural land.]

Italy is the only great country of Europe which seems to have been cultivated and improved in every part, by means of foreign commerce and manufactures for distant sale. Before the invasion of Charles VIII, Italy (according to Guicciardin) was cultivated as much in the most mountainous and barren parts of the country as in the flattest and most fertile. The advantageous situation of the country, and the great number of independent states which at that time subsisted in it, probably contributed to this general cultivation. . . .

The capital that any country acquires by commerce and manufactures is a precarious and uncertain possession, until some part of it is secured and realised in the cultivation and improvement of its lands. A merchant is not necessarily the citizen of any particular country. It matters little to him from what place he carries on his trade; and a very trifling dissatisfaction will make him move his capital, and with it all the industry it supports, from one country to another. No part of it can be said to belong to any particular country until it has (as it were) been spread over the face of that country, either in buildings, or in the lasting improvement of lands. No vestige now remains of the great wealth, said to have been possessed by most of the Hans towns, except in the obscure histories of the thirteenth and fourteenth centuries. . . . But though Italy's misfortunes at the end of the 15th and beginning of the 16th centuries greatly lessened the

commerce and manufactures of the cities of Lombardy and Tuscany, those countries still continue to be among the most populous and best cultivated in Europe. The civil wars of Flanders, and the Spanish government that succeeded them, chased away the great commerce of Antwerp, Ghent, and Bruges. But Flanders still continues to be one of the richest, best cultivated, and most populous provinces of Europe. The ordinary revolutions of war and government easily dry up

the sources of the wealth that arises solely from commerce. Wealth that arises from the more solid improvements of agriculture is much more durable, and cannot be destroyed except but by the more violent convulsions occasioned by the depredations of hostile and barbarous nations continued for a century or two together; such as those that happened for some time before and after the fall of the Roman empire in the western provinces of Europe.

Book IV: Systems of political economy

Introduction

Political economy, considered as a branch of the science of a statesman or legislator, has two aims: **(a)** to provide a plentiful revenue or subsistence for the people, or more properly to enable them to provide it for themselves; and **(b)** to supply the state or commonwealth with enough revenue for the public services. It proposes to enrich both the people and the sovereign.

The different progress of affluence in different ages and nations has given rise to two systems of political economy, with regard to enriching the people. The one may be called the system of commerce, the other that of agriculture. I shall try to explain both as fully and distinctly as I can [the former in chapters 1–8, the latter in chapter 9], and shall begin with the system of commerce. It is the modern system, and is best understood in our own country and in our own times.

Chapter 1: The principle of the commercial or mercantile system

That wealth consists in money, or in gold and silver, is a popular notion that naturally arises from money's double function as •the instrument of commerce and •the measure of value. Because it is the instrument of commerce, we can get whatever we want more easily through money than through any other commodity. The big problem, we always find, is to get money; when we have it there is no difficulty in making any subsequent purchase. Because it is the measure of value, we estimate the value of all other commodities by the amount of money they will exchange for. We say of a rich man that he is worth a great deal of money, and of

a poor man that he is worth very little money. A frugal man, or a man eager to be rich, is said to love money; and a careless, generous, or free-spending man is said to be indifferent about it. In short, 'wealth' and 'money' are treated in everyday language as in every respect synonymous.

In the same way, a rich country is supposed to be a country abounding in money; and heaping up gold and silver in any country is supposed to be the easiest way to enrich it. For some time after the discovery of America, the first thing the Spaniards wanted to know when they arrived at any unknown coast was 'Is there any gold or silver in the neighbourhood?' On the basis of the answer to that they judged whether it was worthwhile to make a settlement there, or if the country was worth conquering. An ambassador from the king of France to one of the sons of the famous Gengis Khan says that the Tatars used often to ask him 'Are there many sheep and oxen in the kingdom of France?' They also wanted to know if the country was rich enough to be worth conquering. Tatars and all other nations of shepherds generally know nothing of the use of money, and for them cattle are the instruments of commerce and the measures of value. For them wealth consisted in cattle; for the Spaniards it consisted in gold and silver. Of the two, the Tatar notion may have been nearer to the truth.

Mr Locke notes a distinction between money and other movable goods. All other movable goods, he says, are so consumable that wealth consisting in them cannot be much depended on; a nation that abounds in them one year may be in great want of them the next—not through export but merely through their own waste and extravagance. Money, on the other hand, is a steady friend: it may travel from hand

to hand, but if it can be kept from leaving the country it is not very liable to be wasted and consumed. According to him, therefore, gold and silver are the most solid and substantial part of the movable wealth of a nation, so he thinks that multiplying those metals ought to be the great object of its political economy.

Others admit that if a nation could be separated from all the world it would not matter how much or how little money circulated in it. The consumable goods that were circulated by means of this money would only be exchanged for a larger or smaller number of pieces, but the real wealth or poverty of the country would depend solely on the abundance or scarcity of those consumable goods. But they think it is different for countries that have connections with foreign nations and are obliged to conduct foreign wars and to maintain fleets and armies in distant countries. This, they say, can be done only by sending abroad money to pay them with; and a nation cannot send much money abroad unless it has a good deal at home. So every such nation must try in time of peace to accumulate gold and silver so that it may have what it needs to carry on foreign wars, when the occasion arises.

Because of these popular notions, all the nations of Europe have—though to little purpose—explored every possible means of accumulating gold and silver. Spain and Portugal, owners of the principal mines supplying Europe with those metals, have either prohibited their export under the severest penalties or subjected it to a considerable duty. A similar prohibition seems once to have been a part of the policy of most other European nations. It is even to be found, where we should least of all expect to find it, in some old Scotch acts of parliament forbidding under heavy penalties the carrying gold or silver out of the kingdom. The same policy formerly held sway in France and in England.

When those countries became commercial, the merchants often found this prohibition extremely inconvenient. They could often buy more advantageously with gold and silver than with any other commodity the foreign goods that they wanted to import into their own country or to carry to some foreign country. So they protested against this prohibition as hurtful to trade. They had two main contentions.

(1) The export of gold and silver to purchase foreign goods does not always lessen the quantity of those metals in the kingdom. On the contrary, it might often *increase* that quantity: if the consumption of foreign goods was not thereby increased in the home country, those goods might be re-exported to foreign countries, sold there for a large profit, and thus bring back more treasure than was originally sent out to purchase them. Mr Mun compares this operation of foreign trade to the seed-time and harvest of agriculture: 'If we only behold the actions of the husbandman at the seed-time, when he throws much good corn into the ground, we shall regard him as a madman rather than a husbandman. But when we consider his labours in the harvest, which is the goal of his efforts, we shall find the worth and plentiful increase of his actions.'

(2) This prohibition cannot not block the export of gold and silver, because they can easily be smuggled abroad. This export can be prevented only by a proper attention to the *balance of trade*. When the country exports goods of greater value than those it imports, a balance becomes due to it **from** foreign nations, and this has to be paid in gold and silver, thereby increasing the quantity of those metals in the kingdom. But when it imports goods of greater value than those it exports, a balance becomes due **to** foreign nations, which has to be paid in the same manner, thereby reducing that quantity. In this situation prohibiting the export of those metals could not prevent it, but would it

more expensive by making it more dangerous. The exchange would be turned against the country that owed the balance more than it otherwise might have been; the merchant who purchased a bill on the foreign country would have to pay the banker who sold it not only for •the natural risk, trouble and expense of sending the money thither but also for •the extra risk arising from the prohibition. And the more the exchange is against a country, the more the balance of trade must be against it because its money comes to have so much less value in comparison with that of the country to which the balance was due. For example, if the exchange between England and Holland was 5% against England, it would require 105 ounces of silver in England to purchase a bill for a 100 ounces of silver in Holland, thus reducing the quantity of Dutch goods that could be bought for 105 ounces of silver; whereas 100 ounces of silver in Holland would be worth 105 ounces in England, and would purchase a correspondingly larger quantity of English goods. Thus, the English goods sold to Holland would be sold correspondingly cheaper, and the Dutch goods sold to England correspondingly dearer. . . . ; so the balance of trade would be that much more against England, and would require a greater balance of gold and silver to be exported to Holland.

Those arguments were partly solid and partly sophistical. They were solid in saying that the export of gold and silver in trade might often be advantageous to the country, and in asserting that no prohibition could prevent their export when private people found any advantage in exporting them. But they were sophistical in supposing that to preserve or increase the quantity of those metals required special attention from the government; any more than such attention is needed to preserve or to increase the quantity of any other useful commodities that the freedom of trade never fails to supply in the proper quantity. They were sophistical

too, perhaps, in asserting that the high price of exchange necessarily increases the unfavourable 'balance of trade', as they called it, or leads to the export of more gold and silver. That high price is indeed extremely disadvantageous to the merchants who had to pay money in foreign countries, because they have to pay more for the bills on those countries that their bankers grant them. But though the risk arising from the prohibition might create a special expense for the bankers, it would not necessarily take any more money out of the country. This expense would generally be all laid out in the home country, in smuggling the money out of it, and could seldom lead to the export of a single sixpence beyond the precise sum drawn for. Also, the high price of exchange would naturally dispose the merchants to try to make their exports nearly balance their imports, so as to keep the amount they have to pay this high exchange on as small as possible. Furthermore, the high price of exchange must operate as a tax—raising the price of foreign goods and thereby diminishing their consumption. So it would tend not to increase but to reduce the unfavourable 'balance of trade', thus reducing the export of gold and silver.

Such as they were, however, those arguments convinced the people to whom they were addressed. They were addressed by merchants to parliaments, councils of princes, nobles, and country gentlemen; by those who were supposed to understand trade to those who were aware of knowing nothing about the matter. Experience demonstrated to the nobles and country gentlemen as well as to the merchants that foreign trade enriched the country; but none of them knew *how* it did so. The merchants knew perfectly how it enriched themselves; it was their business to know that. But it was no part of their business to know how it enriched the country. This subject came into their consideration only when they had occasion to apply to their country for

some change in the laws relating to foreign trade. Then they had to say something about the beneficial effects of foreign trade, and how those effects were obstructed by the laws as they then stood. To the judges who were to decide the business, it appeared a most satisfactory account of the matter when they were told that foreign trade brought money into the country and that the laws in question prevented it from bringing in as much as it otherwise would do. Those arguments therefore produced the wished-for effect. The prohibition of exporting gold and silver was confined in France and England to the coin of those respective countries. The export of foreign coin and of bullion was made free. In Holland and some other places this liberty was extended even to the coin of the country. The attention of government was turned away from •guarding against the export of gold and silver to •watching over the balance of trade, as the only thing that could cause any increase or diminution of those metals. From one fruitless concern it was turned away to another concern much more intricate, much more confusing, and equally fruitless. The title of Mun's book, *England's Treasure in Foreign Trade*, became a fundamental maxim in the political economy of England and indeed of all other commercial countries. The inland or home trade, the most important of all—the trade in which a given amount of capital provides the greatest revenue and creates the greatest employment to the people of the country—was considered as merely subsidiary to foreign trade. It did not bring money into the country, it was said, or carry any out of it; so the country could never become richer or poorer by means of it, except so far as its prosperity or decay might indirectly influence the state of foreign trade.

Gold and silver will be imported without any attention from the government, in the same way that a country with no vineyards of its own must import its wines. It does not seem

necessary, however, that governmental attention should be turned towards one of these more than towards the other. A country that can afford to buy wine will always get the wine it wants; and a country that can afford to buy gold and silver will never be short of those metals. They are to be bought for a certain price like all other commodities, and just as

- gold and silver are the price of all other commodities, so also

- all other commodities are the price of gold and silver.

We trust with perfect security that •the freedom of trade, without any attention from government, will always supply us with the wine we want; and we may trust with equal security that •it will always supply us with all the gold and silver that we can afford to purchase or to employ, whether in circulating our commodities or in other uses.

The quantity of any commodity that human industry can purchase or produce naturally regulates itself in every country according to the effectual demand, i.e. according to the demand of those who are willing to pay the whole rent, labour and profits that must be paid in order to prepare and bring it to market. But no commodities regulate themselves more easily or more exactly according to this effectual demand than gold and silver; because no commodities can be more easily transported from places where they are cheap to ones where they are dear, from places where they exceed this effectual demand to ones where they fall short of it. If there were in England an effectual demand for an additional quantity of gold, a packet-boat could bring from Lisbon or some other source 50 barrels of gold, which could be coined into more than 5,000,000 guineas. But if there were an effectual demand for grain of the same value, importing it would require, at 5 guineas a barrel, 1,000,000 barrels of shipping, or 1,000 ships with 1,000 barrels each. The navy of England would not be sufficient!

[Smith says—giving examples—that it is useless for governments to prohibit the export or the import of gold or silver, because they are too easy to smuggle.]

It is partly because they are easy to transport that their price does not fluctuate continually like that of most other commodities, which are hindered by their bulk from shifting their location when the market is over- or under-stocked with them. Their price is not altogether exempt from variation, but changes in it are generally slow, gradual, and uniform. . . .

If gold and silver *do* fall short in a country that has the wherewithal to purchase them, there are more expedients for supplying their place than that for almost any other commodity. If the materials of manufacture are lacking, industry must stop. If provisions are lacking, the people must starve. But if money is lacking its place can be taken by **barter**, though with a good deal of inconvenience. A less inconvenient way of making up for lack of money is to buy and sell on **credit**, with the dealers exchanging their credits with one another monthly or annually. A well-regulated **paper money** will play the role, not only with no inconvenience but sometimes with some advantages. For every reason, therefore, the government's attention is never so unnecessarily employed as when directed to watch over the preservation or increase of the quantity of money in a country.

Yet no complaint is more common than that of a scarcity of money. Money, like wine, must always be scarce with those who do not have the wherewithal to buy it or the credit to borrow it. Those who have either will seldom lack the money or the wine that they have occasion for. This complaint about the scarcity of money is not always confined to improvident spendthrifts. It is sometimes general through a whole mercantile town and the surrounding countryside. Over-trading is the common cause of it. •Sober men whose projects have been too big for their capital are as likely to

have neither the wherewithal to buy money nor credit to borrow it as •prodigals whose expense has been too big for their income. Before their projects can start to earn anything their stock is gone and their credit with it. They run about everywhere to borrow money, and everyone tells them that they have none to lend. Even such general complaints of the scarcity of money do not always prove that the usual number of gold and silver pieces are not circulating in the country; it may be just that those pieces are wanted by many people who have nothing to give for them. When the profits of trade are greater than ordinary, over-trading becomes a general error among both big and small dealers. They do not always send more money abroad than usual, but they buy on credit (both at home and abroad) an unusual quantity of goods that they send to some distant market, hoping that the returns will come in before the demand for payment. The demand comes before the returns, and they have nothing at hand with which they can purchase money or give solid security for borrowing. What generates the general complaint of the scarcity of money is not a scarcity of gold and silver but the difficulty that such people find in borrowing and that their creditors find in getting payment.

Money is indeed always a part of the national capital; but I have shown that it is generally only a small part, and is always the most unprofitable part of it.

A merchant generally finds it easier to buy goods with money than to buy money with goods, for the following four reasons. **(i)** Money is the known and established instrument of commerce, for which everything is readily given in exchange but which is not always with equal readiness to be got in exchange for everything. **(ii)** Most goods are more perishable than money, and the merchant may often sustain a much greater loss by keeping them than by keeping money. **(iii)** When the merchant's goods are on hand he

is more liable to demands for money that he cannot answer than when he has got (not the goods but) their price in his coffers. (iv) The merchant's profit arises more directly from selling than from buying. For all these reasons he is generally more anxious to exchange his goods for money than to exchange his money for goods. But though it may sometimes happen that a particular merchant with plenty of goods in his warehouse is ruined by not being able to sell them in time, a nation or country is not liable to the same accident. A merchant's whole capital often consists in perishable goods destined for purchasing money. But only a small part of the annual product of a country's land and labour can be destined for purchasing gold and silver from their neighbours. Most of it is circulated and consumed among themselves; and most of the surplus that is sent abroad is destined for the purchase of other foreign goods. So even if gold and silver could not be had in exchange for the goods destined to purchase them, the nation would not be ruined. It might suffer some loss and inconvenience, and be forced to resort to some of the expedients that are necessary for taking the place of money; but the annual product of its land and labour would be nearly the same as usual, because nearly the same consumable capital would be employed in maintaining it. And though goods do not always draw money as *readily* as money draws goods, in the long run they draw it more *necessarily* than it draws them. Goods can serve many other purposes besides purchasing money, but money can serve no purpose except purchasing goods. So money necessarily runs after goods, but goods do not always or necessarily run after money. The man who buys does not always mean to sell again, but often to use or to consume; whereas he who sells always means to buy again. The buyer may often have done the whole of his business, but the seller can never have done more than half of his business. . . .

This is sometimes said:

Consumable commodities are soon destroyed; whereas gold and silver are more durable, so that if they weren't continually being exported they could be accumulated for years, creating an incredible increase in the country's real wealth. So nothing can be more disadvantageous to a country than the trade that consists in exchanging such lasting commodities for perishable ones.

But we do not regard as disadvantageous the trade that consists in exchanging England's hardware for France's wines; yet hardware is a very durable commodity, and if it weren't continually being exported it could be accumulated for years, creating an incredible increase in the country's pots and pans! But it is obvious •that the number of such utensils a country has is necessarily limited by the use there is for them; •that it would be absurd to have more pots and pans than were needed for cooking the victuals usually consumed there; and •that if the quantity of victuals increases, the number of pots and pans will increase along with it, some of the increased quantity of victuals being employed in purchasing them or in maintaining additional workmen to make them. It should be equally obvious •that the quantity of gold and silver a country has is limited by the use there is for those metals; •that their use consists in circulating commodities as coin, and providing a kind of household furniture as plate; •that the quantity of coin in every country is regulated by the value of the commodities that are to be circulated by it (increase that value and immediately some of it will be sent abroad to purchase the additional quantity of coin needed for circulating them); •that the quantity of plate is regulated by the number and wealth of the private families who choose to indulge themselves in that sort of magnificence (increase the number and wealth of

such families and some of this increased wealth will probably be employed in purchasing an additional quantity of plate); •that trying to increase a country's wealth by introducing or by detaining in it an unnecessary quantity of gold and silver is as absurd as would be trying to increase private families' good cheer by obliging them to keep an unnecessary number of kitchen utensils. Just as the expense of purchasing those unnecessary utensils would reduce the quantity or goodness of the family provisions, so also the expense of purchasing an unnecessary quantity of gold and silver must in every country reduce the wealth that feeds, clothes, and lodges the people, that maintains and employs them. . . .

It is not always necessary to accumulate gold and silver in order to enable a country to carry on foreign wars, maintaining fleets and armies in distant countries. Fleets and armies are maintained not with gold and silver but with consumable goods. If a nation has—from the annual product of its domestic industry, from the annual revenue arising out of its lands, labour, and consumable stock—the wherewithal to purchase those consumable goods in distant countries, it can maintain foreign wars there. It can purchase the pay and provisions of an army in a distant country by sending abroad some part of **(a)** its accumulated gold and silver, or of **(b)** the annual product of its manufactures, or of **(c)** its annual rude [see Glossary] product.

(a) The gold and silver that can properly be considered as accumulated or stored up in any country can be distinguished into three parts: •the circulating money, •the plate of private families, and •the money that may have been collected by many years of parsimony and laid up in the treasury of the prince [see Glossary].

It's not often that much can be spared from the circulating money of the country, because there can seldom be much redundancy in that. The value of goods annually

bought and sold in a country requires a certain quantity of money to circulate and distribute them to their proper consumers, and has no use for any more. The channel of circulation necessarily draws to itself a sum sufficient to fill it, and never admits any more. In the case of foreign war, however, something is generally withdrawn from this channel. Because so many people are maintained abroad, fewer are maintained at home. Fewer goods are circulated there, and less money is needed to circulate them. Also, on such occasions an unusually large quantity of paper money of some sort. . . .is generally issued; this takes the place of circulating gold and silver, creating an opportunity to send a greater quantity of it abroad. But all this would be a poor resource for maintaining a foreign war of great expense and several years' duration.

(b) Melting down private families' plate has always been found to be a still more insignificant resource. At the start of the last was the French did not get enough advantage from this expedient to make up for the loss of the fashion.

(c) The accumulated treasures of the prince have in former times provided a much greater and more lasting resource. These days, accumulating treasure seems to be no part of the policy of European princes except for the king of Prussia.

The funds that maintained the foreign wars of the present century—possibly the most expensive that history records—seem to have had little dependence on the export of circulating money, or the plate of private families, or the treasure of the prince. The last French war cost Great Britain upwards of £90,000,000, including not only the £75,000,000 of new debt that was contracted but also the additional two shillings in the pound land tax, and what was annually borrowed from the sinking fund [see page 247]. More than two-thirds of this expense were laid out in distant

countries—in Germany, Portugal, America, the ports of the Mediterranean, the East and West Indies. The kings of England had no accumulated treasure. We never heard of any extraordinary quantity of plate being melted down. The circulating gold and silver of the country had been supposed not to exceed £18,000,000. Since the recent recoinage of the gold, however, that figure is believed to have been a good deal too low. Let us suppose, then, our circulating gold and silver to have been £30,000,000 (the highest figure anyone has suggested). If the war had been carried on by means of our money, the whole of it—even on this very high estimate of what it was—have been sent out and returned again at least twice, in a period of six to seven years. If this happened, it would provide the most decisive proof of how unnecessary it is for government to watch over the preservation of money, since on this supposition the whole money of the country must have gone from it and returned to it again, twice in a short period, without anyone's knowing anything of the matter! The channel of circulation, however, did not appear more empty than usual during any part of this period. Few people lacked money who had the wherewithal to pay for it. The profits of foreign trade, indeed, were greater than usual during the whole war and especially towards the end of it. This caused, as always, a general over-trading in all the ports of Great Britain; which led to the usual complaint about the scarcity of money, which always follows over-trading. Many people wanted money but did not have the wherewithal to buy it or credit to borrow it; and because the debtors found it hard to borrow, the creditors found it hard to get payment. But gold and silver were generally to be had for their value by those who had that value to give for them.

The enormous expense of the late war, therefore, must have been chiefly defrayed by the export of British commodities of some kind, not gold and silver. When a govern-

ment agent contracted with a merchant for a remittance to some foreign country, he would naturally try to pay his foreign correspondent (on whom he had granted a bill) by sending abroad commodities rather than gold and silver. If the commodities of Great Britain were not in demand in that country, he would try to send them to some other country where he could purchase a bill on that country. The transport of commodities, when properly suited to the market, always brings a considerable profit; whereas the transport of gold and silver seldom brings any. When those metals are sent abroad to purchase foreign commodities, the merchant profits not from the purchase but from the sale of the returns. But when they are sent abroad merely to pay a debt he gets no returns and consequently no profit. So he naturally works to find a way of paying his foreign debts by the export of commodities rather than gold and silver. . . .

Besides the three sorts of gold and silver I have mentioned, there is in all large commercial countries a good deal of bullion alternately imported and exported for the purposes of foreign trade. This bullion, as it circulates among different commercial countries in the same way that the national coin circulates in a particular country, can be regarded as the *money* of the great mercantile republic. The national coin receives its movement and direction from the commodities circulated within the precincts of the individual country; the money of the mercantile republic from the commodities circulated between countries. . . . Part of this money of the great mercantile republic was probably employed in carrying on the recent war. In time of a general war, it is natural to suppose that money should get a movement and direction different from what it usually follows in profound peace; that it should circulate more about the seat of the war, and be more employed in purchasing the pay and provisions of the armies there and in the neighbouring countries. But

whatever part of this 'money of the mercantile republic' Great Britain may have annually employed in this manner, it must have been annually *purchased*, with British commodities or with something purchased with them; which again brings us back to commodities, to the annual product of the land and labour of the country, as the ultimate resources that enabled us to carry on the war. It is natural indeed to suppose that so great an annual expense must have been defrayed from a great annual product. The expense of 1761, for example, amounted to more than £19,000,000. No accumulation could have supported so great an annual profusion. . . .

[Smith now offers a long discussion of ways in which various sorts of country can support a long war. Then:]

The importing of gold and silver is not the principal benefit, much less the only benefit, that a nation derives from its foreign trade. Between whatever places foreign trade is carried on, they all get two benefits from it. •It carries out the surplus part of the product of their land and labour for which there is no demand among them, and •brings back in return something for which there is a demand. . . . By opening a larger market for the surplus product of their labour, it encourages them to improve its productive powers and increase its annual product to the utmost, thereby increasing the society's real revenue and wealth. . . . Importing gold and silver into countries that have no mines is no doubt a part of the business of foreign commerce; but it is a most insignificant part of it. A country that carried on foreign trade merely for this purpose would hardly need to load one ship per century!

It is not by the import of gold and silver that the discovery of America has enriched Europe. [He discusses the changes that have arisen from the increased amount and thus the reduced price of those metals, describing them as 'trifling' and saying that they can't have 'made any very essential

change in the state of Europe'. Then:] The discovery of America did however make one most essential change. By opening a new and inexhaustible market for all the commodities of Europe it gave rise occasion to new divisions of labour and improvements of art, which could never have occurred in the narrow circle of the previous commerce because there was no market to support them. In all the countries of Europe the productive powers of labour were improved and its product increased, thus increasing the real revenue and wealth of the inhabitants. The commodities of Europe were almost all new to America, and many of those of America were new to Europe. A new set of exchanges began to take place which had never been thought of before, and which *should* naturally have proved as advantageous to the new continent as it certainly did to the old one. But this event, which ought to have been beneficial to all, was made ruinous and destructive to several of those unfortunate 'American' countries by the savage injustice of the Europeans.

The discovery of a passage to the East Indies by the Cape of Good Hope, which happened at about the same time, may have opened a still larger range to foreign commerce than even that of America, despite the greater distance. Only two nations in America were in any respect superior to savages, and these were destroyed almost as soon as they were discovered. The rest were mere savages. But the empires of China, Indostan, Japan, and several others in the East Indies, without having richer mines of gold or silver, were in every other respect much richer, better cultivated, and more advanced in all arts and manufactures than either Mexico or Peru—even if we credit, as obviously we shouldn't, the exaggerated accounts Spanish writers give of the former state of those empires. But rich and civilised nations can always exchange to a much greater value •with one another than •with savages and barbarians. Yet Europe has so far derived

much less advantage from its commerce with the East Indies than from its commerce with America. [He explains why. For a century the Portuguese monopolized the East India trade; then other European countries established companies (one each) with exclusive rights to that trade. Attacks on those companies, and their defences, have all been based on the fallacious idea that gold and silver are wealth. He goes on to say that he has thought it necessary, even at the risk of being 'tedious', to explain at length why it is a fallacy. Then:]

Once it was accepted that •wealth consists in gold and silver, and •that those metals can be brought into a country that has no mines only by the balance of trade, i.e. exporting to a greater value than it imports, it inevitably became the great object of political economy to reduce as much as possible the importation of foreign goods for home consumption and to increase as much as possible the exporting of the product of domestic industry. Its two great engines for enriching the country, therefore, were restraints on imports and encouragements to export.

The restraints on imports were of two kinds.

Restraints on the importing for home consumption of foreign goods that could be produced at home, whatever country they were imported from. [To be discussed in ch. 2]

Restraints on the importing of goods of almost all kinds from the particular countries with which the balance of trade was supposed to be disadvantageous. [ch. 3]

Those restraints consisted sometimes in high duties, sometimes in absolute prohibitions.

Exporting was encouraged sometimes by drawbacks, sometimes by bounties, sometimes by advantageous treaties of commerce with foreign states, and sometimes by the establishment of colonies in distant countries.

Drawbacks were given when the home manufactures were subject to any duty or excise, either the whole or a part of

it was often drawn back on their export; and when foreign goods liable to a duty were imported in order to be exported again, either the whole or a part of this duty was sometimes given back when such export occurred. [ch. 4]

Bounties were given for the encouragement of some beginning manufactures, and of industries of other kinds that were supposed to deserve particular favour. [ch. 5]

By advantageous treaties of commerce, particular privileges were procured in some foreign state for the goods and merchants of the country, beyond what were granted to those of other countries. [ch. 6]

By establishing colonies in distant countries, the goods and merchants of the country that established them often received not only particular privileges but a monopoly. [ch. 7]

The two sorts of restraints on imports and these four encouragements to export constitute the six principal means by which the commercial system proposes to increase the quantity of gold and silver in any country by turning the balance of trade in its favour. I shall consider each of them in a separate chapter, and without taking much further notice of their supposed tendency to bring **money** into the country I shall chiefly examine what effect each of them is likely to have on the annual product of the country's industry. According as they tend either to increase or reduce the value of this annual product they must evidently tend to increase or reduce the **real wealth** and revenue of the country.

Chapter 2: Restraints on importing from foreign countries goods that can be produced at home

When high duties or absolute prohibitions restrain the importing from foreign countries of goods that can be produced at home, the domestic industry employed in producing those goods gets a monopoly (or something close to it) of the

home market. Thus the prohibition of importing either live cattle or salt provisions from foreign countries gives to the graziers of Great Britain the monopoly of the home market for butcher's meat. The high duties on imported corn, which in times of moderate plenty amount to a prohibition, give a similar advantage to the growers of corn. [He gives other examples—wool, silk, linen—and says that there are more than 'can easily be suspected by those who are not well acquainted with the laws of the customs'.]

These restraints encourage the particular industry, but they do not increase general industry or give it the best direction. It cannot be doubted that this monopoly of the home-market often turns towards one employment a greater share of the labour and stock of the society than would otherwise have gone to it. But whether it tends to increase the general industry of the society, or to give it the most advantageous direction, is less evident.

[Smith argues at great length that any wholesale merchant prefers home trade to foreign trade; it has fewer unknowns, and also keeps his goods more under his eye. Next, he says that someone employing his capital in some kind of industry will naturally want that industry to be as profitable (to him) as possible. That leads him to a very famous paragraph:]

But the annual revenue of every society is always precisely equal to the exchangeable value of the whole annual product of its industry, or rather is precisely the same thing as that exchangeable value. As every individual, therefore, tries as much as he can both to employ his capital in the support of domestic industry and to direct that industry so that its product may be of the greatest value, every individual necessarily works to make the annual revenue of the society as great as he can. He generally neither intends to promote the public interest nor knows how much he is promoting

it. By preferring the support of domestic to that of foreign industry he intends only his own security; and by directing that industry in such a way that its product has the greatest value, he intends only his own gain, and he is in this—as in many other cases—led by an **invisible hand** to promote an end that was no part of his intention. Nor is it always the worse for the society that it was no part of it. By pursuing his own interest he often promotes the interest of the society more effectively than when he really intends to promote it. I have never known much good done by those who claimed to trade for the public good. It is indeed something that merchants do not often claim, and very few words need be employed in dissuading them from it.

'What sort of domestic industry that my capital can employ is likely to have product of the greatest value?' is obviously a question to which the questioner can in his local situation give a much better answer than any statesman or lawgiver can give for him. A statesman who tried to tell private people how they ought to employ their capital would... assume an authority that could not safely be trusted to any single person, to any council or senate, and would be especially dangerous in the hands of a man who had folly and presumption enough to fancy himself fit to exercise it.

To give the monopoly of the home market to the product of domestic industry in any particular art or manufacture is to some extent to tell private people how they ought to employ their capital, and it must nearly always be either

- useless because the product of domestic industry *can* be brought there as cheap as that of foreign industry, or
- damaging because it *cannot*.

It is the maxim of every prudent master of a family never to try to make at home what it will cost him more to make than

to buy. The tailor does not try to make his own shoes; the shoemaker does not try to make his own clothes; the farmer does not try to make either, but employs those different artificers. All of them find it in their interest to employ their whole industry in a way in which they have some advantage over their neighbours, and to purchase with a part of its product—i.e. the price of a part of it—whatever else they need.

What is prudence in the conduct of every private family can hardly be folly in the conduct of a large kingdom. If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of the product of our own industry, employed in a way in which we have some advantage. The general industry of the country, being always in proportion to the capital that employs it, will not thereby be diminished, any more than that of the tailor and shoemaker, but only left to find out how it can be employed with the greatest advantage. It is certainly not employed to the greatest advantage when directed towards an object that it can buy cheaper than it can make. The value of its annual product is certainly lessened when it is turned away from producing commodities evidently of more value than the commodity it is directed to produce. . . .

[Smith now presents about four pages of extremely detailed discussion of governmental •restraints on the import of various commodities and •encouragement of the export of others. Some of these may be helpful to some people at some times, he says, but over-all they are bad for the country and thus bad for nearly everyone. He mockingly asks his opponents whether they would like to help the wine industry of Scotland by banning the import of French wines, since equally good wines can be made in Scotland, with the aid of hot-houses, at only 30 times the cost of French ones. Then:]

Country gentlemen and farmers are, to their great honour, the least subject of all people to the wretched spirit of monopoly. The undertaker of a great factory is sometimes alarmed if another work of the same kind is established within twenty miles of him. . . . Farmers and country gentlemen, on the other hand, are generally disposed to promote rather than to obstruct the cultivation and improvement of their neighbours' farms and estates. They have no secrets like those of most manufacturers, but are generally rather fond of communicating to their neighbours any new practice that they have found to be advantageous. . . . Country gentlemen and farmers, dispersed across the countryside, cannot combine as easily as merchants and manufacturers can. They, being collected into towns, and accustomed to the exclusive corporation spirit that prevails in towns, naturally try to obtain against all their countrymen the same exclusive privilege that they generally have against the inhabitants of their respective towns. They accordingly seem to have been the original inventors of the restraints on the importing of foreign goods that give them the monopoly of the home market. It was probably in imitation of them—and to put themselves on a level with those whom they found to be disposed to oppress them—that the country gentlemen and farmers of Great Britain so far forgot the generosity that is natural to their station [see Glossary] as to demand the exclusive privilege of supplying their countrymen with corn and butcher's meat. Perhaps they did not take time to consider how much less the freedom of trade could affect their interest than that of the people whose example they followed.

To prohibit by a perpetual law the importing of foreign corn and cattle is in reality to ensure that the population and industry of the country will never exceed what the rude product of its own soil can maintain.

There seem, however, to be two cases where it will generally be advantageous to lay some burden on foreign industry for the encouragement of domestic industry.

The **first** is when some particular sort of industry is necessary for the defence of the country. The defence of Great Britain, for example, depends very much on the number of its sailors and ships. So the act of navigation very properly tries to give Great Britain's sailors and shipping the monopoly of the trade of their own country—in some cases by absolute prohibitions, in others by heavy burdens on the shipping of foreign countries. He goes on to describe the four 'principal dispositions of this act'. Then:]

When the act of navigation was made, there was the most violent animosity between England and Holland, though they were not actually at war. . . . Some of the regulations of this famous act may have come from national animosity, but they are as wise as if they had all been dictated by the most deliberate wisdom. At that time national animosity aimed at the very same object that the most deliberate wisdom would have recommended, the reduction of the naval power of Holland, the only naval power which could endanger the security of England.

The act of navigation is not favourable to foreign commerce or to the growth of the affluence that can arise from it. In a nation's commercial relations to foreign nations its interest is like that of a merchant with regard to the people with whom he deals, to buy as cheap and to sell as dear as possible. It will be most likely to buy cheap when by the most perfect freedom of trade it encourages all nations to bring to it the goods it wants to purchase; and it will be most likely to sell dear when its markets are thus filled with the greatest number of buyers. The act of navigation, it is true, lays no burden on foreign ships that come to export the product of British industry. . . . But if foreigners are

hindered by prohibitions or high duties from coming to sell, they cannot always afford to come to buy; because when they come without a cargo they lose the freight from their own country to Great Britain. By reducing the number of sellers, therefore, we diminish the number of buyers, and are thus likely to buy foreign goods dearer *and* to sell our own cheaper than if there were a more perfect freedom of trade. As defence is much more important than affluence, however, the act of navigation is perhaps the wisest of all England's commercial regulations.

The **second** case in which it will generally be advantageous to lay some burden on foreign industry for the encouragement of domestic industry is when some tax is imposed at home on the product of the latter. In this case, it seems reasonable that an equal tax should be imposed on foreign product of the same kind. This would not give the monopoly of the home market to domestic industry, or give a particular employment a greater share of the country's stock and labour than would naturally go to it. It would only prevent any part of what would naturally go to it from being turned away by the tax into a less natural direction, leaving the competition between foreign and domestic industry as nearly as possible on the same footing as they were before the tax. When any such tax is laid on the product of domestic industry in Great Britain, it is usual at the same time—to stop our merchants' and manufacturers' clamorous complaints that they will be undersold at home—to lay a much heavier duty on the import of all foreign goods of the same kind.

Some people hold this:

This second limitation of the freedom of trade should sometimes be extended much further than to the precise foreign commodities that could compete with those that have been taxed at home. When the necessities of life have been taxed in a country, it

becomes proper to tax not only •similar necessities of life imported from other countries but •all sorts of foreign goods that can compete with any product of domestic industry. Subsistence inevitably becomes dearer in consequence of such taxes; and the price of labour must always rise with the price of the labourers' subsistence. . . . Such taxes are really equivalent to a tax on every particular commodity produced at home. In order to put domestic industry on the same footing as foreign industry, therefore, it becomes necessary to subject *every* foreign commodity to some duty equal to this increase in the price of the home commodities that it can compete with.

Do taxes on the necessities of life—such as those in Great Britain on soap, salt, leather, candles, etc.—necessarily raise the price of labour and thus of all other commodities? I shall address that question when I come to treat of taxes [starting on page 223]. Let us in the meantime stipulate that they certainly do have this effect; still, •this general increase in the price of all commodities because of the increase in the price of labour differs in two ways from •the increase in the price of a particular commodity because of a particular tax immediately imposed on it.

(a) It could always be known exactly how far the price of such a commodity would be raised by such a tax: but how far the general increase in the price of labour might affect that of every labour-involving commodity could never be known with any tolerable exactness. So it would be impossible to proportion the tax on every foreign commodity to this increase in the price of every home commodity.

(b) Taxes on the necessities of life have nearly the same effect on the circumstances of the people as a poor soil and a bad climate. They make provisions dearer in the same way as if it required extraordinary labour and expense to raise

them. Just as in the natural scarcity arising from soil and climate it would be absurd to tell the people how they ought to employ their capital and industry, so it is absurd to do that in the artificial scarcity arising from such taxes. What would obviously be most for their advantage in both cases would be: to be left to adjust their industry to their situation as well as they could, and to find the employments ·of capital· in which, despite their unfavourable circumstances, they might have some advantage either in the home or in the foreign market. To

- lay a new tax on them because they are already overburdened with taxes, and
- make them pay too much for most other commodities because they already pay too much for the necessities of life

is certainly a most absurd way of making amends!

[Smith declares that when such taxes reach 'a certain height' they are 'a curse', and that only a very well-endowed country can survive them, just as only a very strong person can thrive on a bad diet. He then switches to cases where 'it may be a matter of deliberation' whether the free import of foreign goods should be **(i)** continued or **(ii)** restored after an interruption.]

(i) It may sometimes be a matter of deliberation how far it is proper to continue the free import of certain foreign goods when some foreign nation restrains by high duties or prohibitions the importing of some of our manufactures into their country. Revenge in this case naturally dictates that we should retaliate, imposing similar duties and prohibitions on the import of some or all of their manufactures into our country. Nations seldom fail to retaliate in this way. [He gives examples of such conflicts, involving France, Holland, England, Spain, and Flanders.]

There may be good policy in retaliations of this kind when

there is a probability that they will procure the repeal of the high duties or prohibitions complained of. The recovery of a large foreign market will generally more than make up for the transitory inconvenience of paying more during a short time for some sorts of goods. To judge whether such retaliations are likely to produce such an effect does not perhaps belong so much to the science of a **legislator**, whose deliberations ought to be governed by general principles which are always the same, as to the skill of that insidious and crafty animal commonly called a **statesman** or **politician**, whose councils are directed by the momentary fluctuations of affairs. When there is no probability that any such repeal can be procured, it seems a bad method of making up for the harm done to certain classes of our people to do another harm to ourselves! . . .

(ii) It may sometimes be a matter of deliberation how far—and how—it is proper to restore the free import of foreign goods after an interruption when particular manufactures have been so far extended, by means of high duties or prohibitions on foreign goods competing with them, that they employ a great multitude of hands. Humanity may in this case require that the freedom of trade should be restored only slowly and cautiously. If those high duties and prohibitions were taken away all at once, cheaper foreign goods of the same kind might be poured into the home market so fast as suddenly to deprive many thousands of their ordinary employment and means of subsistence. The disorder which this would occasion might no doubt be very considerable, but it would probably be much less than is commonly imagined, for the two following reasons.

First, all the manufactures of which any part is commonly exported to other European countries without a bounty could not be much affected by the freest import of foreign goods. Such manufactures must be sold as cheap abroad

as any other foreign goods of the same quality and kind, and consequently must be sold cheaper at home. So they would still keep possession of the home market. . . . A great part of all the branches of our woollen manufacture, of our tanned leather, and of our hardware are annually exported to other European countries without any bounty, and these are the manufactures that employ the greatest number of hands. Silk is perhaps the manufacture that would suffer the most by this freedom of trade, and after that—a long way after—linen.

Secondly, even if restoring the freedom of trade suddenly threw many people out of their ordinary employment and common method of subsistence, it would by no means follow that they would thereby be deprived either of employment or subsistence. By the reduction of the army and navy at the end of the recent war more than 100,000 soldiers and seamen, a number equal to what is employed in the greatest manufactures, were suddenly thrown out of their ordinary employment; but though they no doubt suffered some inconvenience they were not deprived of all employment and subsistence. Probably most of the seamen gradually went into the merchant service as they could find openings, and in the meantime they and the soldiers were absorbed in the great mass of the people and employed in a great variety of occupations. This great change in the situation of more than 100,000 men, all accustomed to the use of arms and many of them accustomed to rapine and plunder, did not cause any great convulsion or even any noticeable disorder. The number of vagrants was hardly anywhere noticeably increased by it; even the wages of labour were not reduced by it in any occupation, so far as I have been able to learn, except in that of seamen in the merchant service. But the habits of any sort of manufacturer [see Glossary] do not tend to disqualify him from being employed in a new trade so

much as the habits of a soldier tend to prevent *him* from being employed in any. The manufacturer has always been accustomed to look for his subsistence from his labour only; the soldier to expect it from his pay. Application and industry have been familiar to the one; idleness and dissipation to the other. It is surely much easier to change the direction of industry from one sort of labour to another than to turn idleness and dissipation to any sort of labour. [He adds that many English workmen, if their line of work is destroyed by free trade, are equipped to move swiftly to other lines of work related to their previous one, if the law of the land didn't make this difficult.] When soldiers and seamen are discharged from the king's service they are free to exercise any trade in any town or place of Great Britain or Ireland. If the same natural liberty is restored to all his majesty's subjects; that is, if we

- break down the exclusive privileges of corporations,
- repeal the statute of apprenticeship, and
- repeal the law of settlements,

so that a poor workman, when thrown out of employment in one trade or in one place, may seek for it in another trade or in another place without fear from the law, neither the public nor the individuals will suffer much more from the occasional disbanding of some particular classes of manufacturers than from the disbanding of soldiers. Our manufacturers no doubt have great merit with their country, but they cannot have more than those who defend it with their blood, nor deserve to be treated with more delicacy.

To expect freedom of trade ever to be entirely restored in Great Britain is as absurd as to expect that an Oceana or Utopia should ever be established in it. The prejudices of the public and—much more unconquerable—the private interests of many individuals irresistibly oppose it. If the officers of the army opposed any reduction in the number of

forces with the same zeal and unanimity with which master manufacturers set themselves against every law that is likely to increase the number of their rivals in the home market; if the former animated their soldiers, in the same way that the latter enflame their workmen, to attack with violence and outrage the proposers of any such law; trying to reduce the army would be as dangerous as it has now become to try to reduce the monopoly that our manufacturers have obtained against us. This monopoly has so much increased the number of some particular tribes of them that, like an overgrown standing army, they have become formidable to the government, and on many occasions intimidate the legislature. The member of parliament who supports every proposal for strengthening this monopoly is sure to acquire not only •the reputation of understanding trade but also •great popularity and influence with an order of men whose numbers and wealth make them very important. On the other hand, if he opposes them—and still more if he has enough authority to be able to thwart them—neither the most acknowledged probity, nor the highest rank, nor the greatest public services can protect him from the most infamous abuse and detraction, from personal insults, sometimes from real danger, arising from the insolent outrage of furious and disappointed monopolists.

...The undertaker of a large manufacture had to abandon his trade because the home markets were *suddenly* laid open to the competition of foreigners would no doubt suffer very considerably. The part of his capital that had usually been employed in purchasing materials and paying his workmen might without much difficulty find another employment. But the part of it that was fixed in workshops and instruments of trade could hardly be disposed of without considerable loss. So a fair regard for his interests requires that changes of this kind should never be made suddenly;

they should come about slowly, gradually, and after a very long warning.

If the legislature's deliberations could be always directed not by the clamorous importunity of partial interests but by an extensive view of the general good, it ought to be particularly careful not to establish any new monopolies of this kind or to extend further those that are already established. Every such regulation introduces into the constitution of the state some degree of real disorder which it will be hard then to cure without creating another disorder.

How far it may be proper to impose taxes on the importing of foreign goods in order (not to prevent their import but) to raise revenue for government, I shall consider when I come to treat of taxes [starting on page 223]. Taxes imposed with a view to preventing or even to diminishing imports are obviously as destructive of the revenue of the customs as of the freedom of trade.

Chapter 3: Restraints on almost all imports from countries with which the trade balance is supposed to be disadvantageous

Part 1: The unreasonableness of those restraints even on the principles of the commercial system

The second expedient by which the commercial system proposes to increase the quantity of gold and silver is putting special restraints on the import of almost all goods from particular countries with which the balance of trade is supposed to be disadvantageous. [He goes into details about 'prohibitive' duties protecting Great Britain from many imports from France, and concludes:] Those mutual restraints have put an end to almost all fair commerce between the two nations, and smugglers are now the principal importers

of British goods into France and of French goods into Great Britain. The principles I discussed in IV.2 took their origin from private interest and the spirit of monopoly; the ones I am going to discuss now arise from national prejudice and animosity. So they are (as you might expect) even more unreasonable. They are unreasonable even on the principles of the commercial system. There are three main objections to them.

(1) Even if it were certain that with free trade between France and England (for example) the 'balance' would be in favour of France, it by no means follows that such a trade would be disadvantageous to England, or that the general balance of its whole trade would thereby be turned more against it. If the wines of France are better and cheaper than those of Portugal, or its linens than those of Germany, it would be more advantageous for Great Britain to purchase the wine and foreign linen that it wanted from France than from Portugal and Germany. The value of annual *imports from France* would be greatly increased, but the value of the *whole annual imports* would be reduced in proportion as the French goods of the same quality were cheaper than those of the other two countries. This would be the case even if all the French goods imported were consumed in Great Britain.

(2) But a large part of them might be re-exported to other countries and sold there with profit, bringing a return that might equal in value the prime cost of all the French goods imported. What has often been said of the East India trade could be true of the French, namely that though most East India goods were bought with gold and silver, the re-export of some of them to other countries brought back to the exporting country more gold and silver than the prime cost of the whole amounted to. [He gives an example of how this works in Europe: 'some of the French wine drunk in Great Britain is clandestinely imported from Holland'.]

(3) There is no certain criterion by which to determine which way the 'balance of trade' between any two countries slopes, i.e. which of them exports to the greatest value. Our judgment on all questions about this is generally driven by national prejudice and animosity, prompted always by the private interest of particular traders. Two criteria, however, have often been appealed to in this context—the custom-house books and the exchange-rate. The custom-house books, I think it is now generally acknowledged, are a very uncertain criterion because of the inaccuracy of their valuations of most goods. The exchange-rate is perhaps almost equally so.

The case for using it as a marker of the balance of trade goes like this:

When the exchange between two places (e.g. London and Paris) is at par, this shows that debts due from London to Paris are balanced against those due from Paris to London. And when a premium is paid at London for a bill on Paris, this shows that the debts due from London to Paris are not balanced by those due from Paris to London, and that a balance in money must be sent out from London. The premium is demanded (and given) for the risk, trouble, and expense of exporting that money. But the ordinary state of debt and credit between the two cities must be regulated by the ordinary course of their dealings with one another. When neither imports from the other to a greater amount than it exports to that other, the debts and credits of each may balance out against one another. But when one of them imports from the other to a greater value than it exports to that other, the former becomes indebted to the latter for a greater sum than the latter becomes indebted to it: the debts and credits do not balance out, and money must be

sent out from the place whose debts over-balance the credits. The ordinary exchange-rate, therefore, being an indication of the ordinary state of debt and credit between two places, must likewise be an indication of the ordinary course of their exports and imports, because these necessarily regulate that state.

But even if the ordinary exchange-rate between two places is taken to be a sufficient indication of the ordinary state of debt and credit between them, it does not follow from this that the balance of trade is in favour of the place that has the ordinary state of debt and credit in its favour. The ordinary state of debt and credit between any two places is *not* always entirely regulated by the ordinary course of their dealings with one another; but is often influenced by dealings that either have with many other places. If it is usual, for example, for the merchants of England to pay for the goods they buy from Hamburg, Dantzic, Riga, etc. by bills on Holland, the ordinary state of debt and credit between England and Holland will not be regulated entirely by the ordinary course of the dealings of those two countries with one another, but will be influenced by that of the dealings of England with those other places. England may be obliged every year to send out money to Holland, even if its annual exports to that country greatly exceed the annual value of its imports from there—i.e. even if the 'balance of trade' is very much in favour of England.

[Smith devotes two pages to explaining three further reasons why the official 'exchange-rate' is misleading. The quality of coins differs in different countries—e.g. they may be worn or 'clipped' so as to contain less gold or silver than their announced value. Countries differ in how they handle the cost of turning bulk metal into coins—in some it is done by the government, in others by private enterprise—and that affects how coin money should be

computed. •Some places handle their foreign debts with something called ‘bank money’, which is worth more than the corresponding ‘common currency’, and this too helps to disguise the real state of affairs.]

[Smith here starts a six-page ‘digression’ concerning the banks of deposit, particularly Amsterdam’s. It is omitted here.]

Part 2: The unreasonableness of those special restraints on other principles

In Part 1 of this Chapter I tried to show how unnecessary it is to put special restraints on the import of goods from countries with which the balance of trade is supposed to be disadvantageous.

But nothing can be more absurd than this whole doctrine of the ‘balance of trade’, on which these restraints and almost all the other regulations of commerce are founded. When two places trade with one another, this doctrine supposes that •if the balance is even then neither of them loses or gains, and that •if it leans to one side then that one loses and the other gains in proportion to the steepness of the slope. Both suppositions are false. A trade that is constrained by bounties and monopolies may be—and commonly is—disadvantageous to the country in whose favour it is meant to be established, as I shall try to show later. But trade that is naturally and regularly carried on between two places without force or constraint is always advantageous to both, though not always equally so.

By ‘advantage’ or ‘gain’ I do not mean increase of the quantity of gold and silver but the increase of the exchangeable value of the annual product of the land and labour of the country, i.e. the increase of the annual income of its inhabitants.

If the balance is even and the trade between the two

places consists entirely in the exchange of their native commodities, they will usually gain *equally*, or nearly so. . . . Some of the inhabitants of each will indirectly derive their income and maintenance from the other. As the commodities exchanged too are supposed to be of equal value, the two sides will usually employ nearly equal amounts of capital; and. . . .the income and maintenance that their distribution will provide to the inhabitants of each will be nearly equal. . . .

If one place exported to the other nothing but native commodities, while the returns of the other consisted entirely in foreign goods, the balance would still be supposed even, commodities being paid for with commodities. And here too they would both gain, but not equally: the inhabitants of the country that exported nothing but native commodities would derive the greater income from the trade. For example, if England imported from France nothing but the native commodities of that country, and annually repaid them by sending to France a large quantity of foreign goods (tobacco, say, and East India goods), this trade would give more income to the inhabitants of France than to those of England. The whole French capital annually employed in it would annually be distributed among the people of France, whereas most of the capital on the English side would be distributed among the people of the other countries from which the tobacco etc. originally came. . . .

. . . .Almost all countries exchange with one another partly native and partly foreign goods. The country in whose cargoes there is the greater proportion of native as against foreign goods will always be the principal gainer.

If England paid for the commodities annually imported from France not with tobacco and East India goods but with gold and silver, the balance would be supposed uneven because commodities were being paid for not with commodities but with gold and silver. In this case, the trade would

again give some income to the inhabitants of both countries, but more to those of France than to those of England. It would give some income to those of England. The capital that had been employed in producing the English goods that purchased this gold and silver—capital that had been distributed among certain inhabitants of England, giving them income—would be replaced and enabled to continue that employment. The whole capital of England not be lessened by this export of gold and silver, any more than it would by the export of an equal value of any other goods. On the contrary, it would in most cases be increased. Goods sent abroad are always ones for which the demand is supposed to be greater abroad than at home, so that the returns are expected to be of more value at home than the commodities exported. If the tobacco that in England is worth only a £100,000 when sent to France will purchase wine that is in England worth £110,000, the exchange will increase the capital of England by £10,000. If £100,000 of English gold purchases French wine that in England is worth £110,000, this exchange will equally increase the capital of England by £10,000. Just as a merchant who has £110,000 worth of wine in his cellar is a richer man than he who has only £100,000 worth of tobacco in his warehouse, so is he also richer than he who has only £100,000 worth of gold in his coffers. He can put more industry into motion and give income, maintenance, and employment to more people than either of the other two can. But the capital of the country is equal to the capitals of all its inhabitants, and the quantity of industry that can be annually maintained in it is equal to what all those capitals can maintain. So the capital of the country and the amount of industry that can be annually maintained in it must generally be increased by this exchange. It would, indeed, be more advantageous for England to purchase the wines of France with its own

hardware and broadcloth, than to purchase them with either the tobacco of Virginia or the gold and silver of Brazil and Peru. A direct foreign trade of consumption is always more advantageous than a roundabout one. But a roundabout foreign trade of consumption carried on with gold and silver, does not seem to be less advantageous than any other equally roundabout one. And a country with no mines is no more likely to run out of gold and silver because of this annual export of those metals than one that does not grow tobacco is likely to run out of that plant because of its annual export of it. Just as a country that has the wherewithal to buy tobacco will never be long in want of it, neither will one be long in want of gold and silver which has the wherewithal to purchase those metals.

It is said to be a losing trade that a workman carries on with the alehouse; and the trade a manufacturing nation would naturally carry on with a wine country can be seen in the same way. I answer that the trade with the alehouse is not necessarily a losing trade. In its own nature it is just as advantageous as any other, though perhaps more liable to be abused. . . . It will generally be more advantageous for a workman to buy from the brewer the quantity he wants than to brew it himself, and it will generally be more advantageous for a *poor* workman to buy it in small amounts from the retailer than to buy a large quantity of the brewer. He may no doubt buy too much, as he may buy too much from the butcher if he is a glutton, or from the draper if he wants to impress his companions by his dress. But it is advantageous to the great body of workmen that all these trades should be free, though this freedom may be abused in all of them and may be more likely to be abused in some than in others. Also: though individuals may sometimes ruin their fortunes by excessive consumption of fermented liquors, there seems to be no risk of a nation's

doing so. Though in every country there are many people who spend more on such liquors than they can afford, there are always many more who spend less. . . . The inhabitants of the wine countries are in general the soberest people in Europe—Spain, Italy, southern France. . . . It is often said that when a French regiment comes from northern to southern France, the soldiers are at first debauched by the cheapness and novelty of good wine; but after a few months residence most of them become as sober as the rest of the inhabitants. [He says that if duties on foreign wines and taxes on malt, beer, and ale were suddenly removed, there might be a general epidemic of drunkenness but that this would ‘probably soon be followed by permanent and almost universal sobriety’. These duties and taxes, he says, ‘favour the wine trade of Portugal and discourage that of France’, and on that note he modulates into a return to an earlier dispute:] There are those who say this:

The Portuguese are better customers for our manufactures than the French and should therefore be encouraged in preference to them. Because they give us their custom we should give them ours.

In this way the •sneaking arts of underling tradesmen are erected into •political maxims for the conduct of a great empire; for it is the most underling tradesmen only who make it a rule to buy mainly from their own customers. A great trader purchases his goods always where they are cheapest and best, without regard to any little interest of this kind.

By such maxims as these nations have been taught that their interest consists in beggaring all their neighbours. Each nation has been made to look with an invidious eye on the prosperity of all the nations it trades with, and to consider their gain as its own loss. Commerce among nations, as among individuals, ought naturally to be a bond of union

and friendship; but it has become the most fertile source of discord and animosity. During this century and the last, the capricious ambition of kings and ministers has not been more fatal to Europe’s peace than the impertinent jealousy of merchants and manufacturers. The violence and injustice of the rulers of mankind is an ancient evil, for which I am afraid the nature of human affairs can scarce admit of a remedy. But the meanly rapacious and monopolising spirit of merchants and manufacturers—who aren’t and shouldn’t be the rulers of mankind—though perhaps it cannot be corrected may very easily be prevented from disturbing the tranquillity of anyone but themselves.

That it was the spirit of monopoly that originally invented and propagated this doctrine cannot be doubted; and those who first taught it were by no means such fools as those who believed it. In every country it must always be the interest of most people to buy whatever they want from those who sell it cheapest. This is so obvious that it seems ridiculous to take trouble to prove it; and it could never have been called into question if the self-interested sophistry of merchants and manufacturers had not confounded the common sense of mankind. In this matter their interests are directly opposite to the interests of most the people. Just as it is in the interests of the freemen of a corporation to block the other inhabitants from employing any workmen but themselves, so it is in the interest of merchants and manufacturers to secure for themselves the monopoly of the home market. That is why Great Britain (like most other European countries) has

- special duties on almost all goods imported by alien merchants,
- high duties and prohibitions on all foreign manufactures that can compete with our own, and
- special restraints on the import of almost all sorts of goods from countries with which the balance of trade

is supposed to be disadvantageous, i.e. from those against whom national animosity happens to be most violently inflamed.

But the wealth of a neighbouring nation, though dangerous in war and politics, is certainly advantageous in trade. In war-time it may enable our enemies to maintain fleets and armies superior to our own; but in a state of peace and commerce it must enable them to exchange commodities with us to a greater value, and to provide a better market for the immediate product of our own industry or for whatever is purchased with that product. Just as a rich man is likely to be a better customer to the industrious people in his neighbourhood than a poor, so is a rich nation. It is true that a rich man who is himself a manufacturer is a dangerous neighbour to all those who deal in the same way; but all the rest of his neighbourhood—by far the majority—profit by the good market for whatever they are producing that his expense provides them with. They even profit by his underselling the poorer workmen who deal in the same way as him. No doubt the manufacturers of a rich nation may similarly be dangerous rivals to the manufacturers of neighbouring countries. But this very competition is advantageous to the great body of the people, who also profit by the good market that the great expense of such a nation provides them with in every other way. Individuals who want to make a fortune never think of retiring to the remote and poor provinces of their country, but resort to the capital city or to one of the great commercial towns. They know that where little wealth circulates there is little to be acquired, but that where a great deal is in motion some share of it may fall to them. The maxims that would in this way direct the common sense of one individual—or ten or twenty of them—should also regulate the judgment of one million people or ten or twenty million of them; and should make

a whole nation regard the riches of its neighbours as likely to bring riches to it too. . . . A large nation surrounded by wandering savages and poor barbarians might acquire riches by cultivating its own lands and by its own interior commerce, but not by foreign trade. That seems to be how. . . .the modern Chinese acquired their great wealth. . . . They are known to hold foreign commerce in the utmost contempt, and hardly deign to provide it the decent protection of the laws. The modern maxims of foreign commerce, by aiming at the impoverishment of all our neighbours, . . . tend to make that very commerce insignificant and contemptible.

It is because of these maxims that the commerce between France and England has been subjected to so many discouragements and restraints in both countries. If they were to consider their real interest, without mercantile jealousy or national animosity, France's commerce might be more advantageous to Great Britain than that of any other country, and vice versa. [He explains that because of the shortness of the distances, trade between southern England and France could be expected to bring 'returns' up to six times a year, as does inland trade, whereas most foreign trade could bring returns only about once a year, and he explains the importance of this:] So the capital employed in this trade could in each of the two countries keep in motion up to six times the quantity of industry, and provide employment and subsistence for up to six times as many people, as could an equal amount of capital in most of the other branches of foreign trade. Even the latter would still be three times more advantageous than the boasted trade with our North American colonies, in which the returns were seldom made in less than three years, often not in less than four or five years. Furthermore, France is said to have 24,000,000 inhabitants; our North American colonies were never supposed to have more than 3,000,000; and France is much richer than North

America (though there it has much more poverty and beggary because of its more unequal distribution of riches); so France could provide a market at least 8 times larger than what our North American colonies ever provided, and because of the greater frequency of the returns 24 times more advantageous. The trade of Great Britain would be just as advantageous to France, and . . . would have the same superiority over that which France carries on with her own colonies. Such is the difference between •the trade that the *wisdom* of both nations has thought proper to discourage and •the trade that it has favoured the most!

But the very circumstances that would have made open and free commerce between the two countries so advantageous to both have created the principal obstructions to that commerce. Being neighbours, they are necessarily enemies, so that the wealth and power of each becomes more formidable to the other; and what would increase the advantage of national friendship serves only to inflame the violence of national animosity. Both nations are rich and industrious; and the merchants and manufacturers of each dread competition from the skill and activity of those of the other. Mercantile jealousy is aroused, and this inflames and is inflamed by the violence of national animosity. The traders of both countries have announced, with all the passionate confidence of self-interested falsehood, that they would certainly be ruined by the unfavourable 'balance of trade' that would (they say) be the infallible effect of unrestrained commerce with the other.

[He says that this scare about ruin coming from free trade because of an unfavourable 'balance of trade' is often pronounced in every commercial country in Europe. He continues:] It does not appear that any nation in Europe has been in any way impoverished by freedom of trade. On the contrary, in proportion as any town or country has opened

its ports to all nations it has been enriched by this free trade, rather than being ruined by it as the principles of the commercial system predict. Actually, although a few European towns in some respects deserve the name of 'free ports', no European country does so. Holland is still far from it, though it may be closer than any other; and Holland, it is acknowledged, derives its whole wealth and a large part of its necessary subsistence from foreign trade.

[Smith now reminds the reader of a different balance, which *does* determine national 'prosperity or decay', namely the balance between •production and •consumption. Tilt this one way and the country slides downhill; tilt it the other and the country's affluence grows. This balance 'is entirely different from the so-called "balance of trade"'; a country has it (tilted one way or the other) even if it has no foreign trade; so does the whole earth.]

The balance of product and consumption may be constantly in favour of a nation though the so-called 'balance of trade' is generally against it. The following is possible:

A nation imports to a greater value than it exports for half a century; the gold and silver coming into it during all this time is immediately sent out of it again; its circulating coin gradually decays, being replaced by various kinds of paper money; the debts it contracts in the principal nations with whom it deals gradually increase; yet its real wealth—the exchangeable value of the annual product of its lands and labour—during the same period increases in a much greater proportion.

The state of our North American colonies, and of the trade with Great Britain that they conducted before the start of the present disturbances [i.e. the American Revolution], shows that this is in no way impossible.

Chapter 4: Drawbacks

Merchants and manufacturers are not contented with the monopoly of the home market, but also want the most extensive foreign sale for their goods. Their country has no jurisdiction in foreign nations, and therefore can seldom get any monopoly there; so they generally have to settle for petitioning for certain *encouragements* to export.

Of these encouragements the ones called 'drawbacks' seem to be the most reasonable. To allow the merchant to *draw back* on export all or part of whatever excise or inland duty is imposed on domestic industry can never lead to the export of more goods than would have been exported if no duty had been imposed. Such encouragements do not tend to •turn towards any particular employment a greater share of the country's capital than would go to that employment of its own accord, but only to prevent the duty from •driving away any part of that share to other employments. They tend not •to overturn the balance that naturally establishes itself among the society's employments but only •to block it from being overturned by the duty. They tend not to destroy but to preserve what it is in most cases advantageous to preserve, namely the natural division and distribution of labour in the society.

The same thing holds for drawbacks on the re-export of imported foreign goods, which in Great Britain generally amount to by far the largest part of the duty on import. [He now has a couple of pages of details about what drawbacks there have been in Great Britain, about their history and what motivated them. Then:]

Drawbacks were perhaps originally granted for the encouragement of the carrying trade, which was supposed to be especially apt to bring gold and silver into the country because the freight of the ship is often paid by foreigners in

money. But though the carrying trade deserves no special encouragement, and though the motive for granting it drawbacks was abundantly foolish, these drawbacks themselves seem reasonable enough. They cannot force into this trade a greater share of the country's capital than would have gone to it of its own accord if there had been no duties on import; they only prevent its being excluded altogether by those duties. The carrying trade, though it deserves no preference, ought not to be precluded but left free like all other trades. It is a necessary resource for capital that cannot find employment in the country's agriculture or manufactures, whether in its home trade or in its foreign trade of consumption.

The revenue of the customs actually *profits* from such drawbacks, the profit being the part of the duty that is •not drawn back but •retained. If the whole duties had been retained, the foreign goods on which they are paid could seldom have been exported, nor consequently imported, for lack of a market, in which case the duties of which a part is retained would never have been paid.

These reasons seem sufficiently to justify drawbacks, and would justify them even if the *whole* duties on the product of domestic industry and on foreign goods were always drawn back on export. If that happened, the revenue of •excise would indeed suffer a little, and that of the •customs a good deal more; but the natural balance of industry—the natural division and distribution of labour—which is always somewhat disturbed by such duties would be more nearly re-established by such a regulation.

But these reasons justify drawbacks only on exporting goods to countries that are altogether foreign and independent, not to ones where our merchants and manufacturers enjoy a monopoly. For example, a drawback on the export of European goods to our American colonies will not always

lead to a greater export than would have occurred without it. Because of the monopoly that our merchants and manufacturers enjoy there, the same quantity might often be sent there even if the whole duties were retained. So the drawback may often be pure loss to the revenue of excise and customs, without altering the state of the trade or making it in any way larger. How far such drawbacks can be justified as a proper encouragement to the industry of our colonies, and how far it is advantageous to the mother country that they should be exempted from taxes that are paid by the rest of their fellow-subjects, will appear when I come to treat of colonies.

It must be understood that drawbacks are useful only when the goods for the export of which they are given really *are* exported to some foreign country and not clandestinely re-imported into our own. It is well known that some drawbacks, especially on tobacco, have often been abused in this manner, giving rise to many frauds that have been equally damaging both to the revenue and to the fair trader.

Chapter 5: Bounties

In Great Britain bounties on export are often petitioned for and sometimes granted to the product of particular branches of domestic industry. The case for them goes like this:

Bounties will enable our merchants and manufacturers to sell their goods cheaper than their rivals in the foreign market. More will thus be exported, and the balance of trade consequently turned more in favour of our own country. We cannot give our workmen a monopoly in the foreign market as we have done in the home market. We cannot *force foreigners to buy* their goods, as we have done our own countrymen. The next best expedient is to *pay them for buying*.

This is how the mercantile system proposes to enrich the whole country, putting money into all our pockets, by means of the 'balance of trade'.

[Smith devotes more than twenty pages to attacking bounties. His opening shot, which is really the theme of the whole attack, is that the defenders of bounties only want them for 'branches of trade that cannot be carried on without them', and these, Smith says, ought to be allowed to die. Someone engaged in such a branch of business would, if he weren't helped by bounties, be led by self-interest to employ his capital on something else; which would be better for him and for the whole country.]

[He criticises at length a published defence of bounties in support of the export of corn, saying in effect that that author mishandled the mathematics of the situation. He agrees that the price of corn on the home market has fallen over several decades when there has been a bounty, but contends that this has happened 'in spite of the bounty, and cannot possibly have happened in consequence of it'.]

Whatever extension of the foreign market can be caused by the bounty must in each year be entirely at the expense of the home market: every bushel of corn that is exported by means of the bounty and would not have been exported otherwise would, absent the bounty, have remained in the home market, increasing the consumption and lowering the price of that commodity. Every bounty on export imposes two taxes on the people:

- the tax they are obliged to contribute in order to pay the bounty; and
- the tax arising from the advanced price of the commodity in the home market, a tax that must be paid by the whole body of the people if the commodity in question is (like corn) something that everyone purchases.

In the case of corn, this second tax is by far the heavier of the two. [He explains this in terms of a detailed analysis of a particular case. Having argued that a supposed rise in the price of corn is really a decrease in the price of silver, he moves over to a discussion of silver as such:]

The lowering in the value of silver that comes from the fertility of the mines, and occurs nearly equally through most of the commercial world, is of very little consequence to any country. The consequent rise of all money prices does not make those who receive them really richer, though it does not make them really poorer either. A service of silver-plate becomes really cheaper, and everything else remains of precisely the same real value as before.

But the lowering in the value of silver that occurs in just one country, because of that country's special situation or political institutions, is a matter of very great consequence; far from tending to make anyone really richer, it tends to make everyone really poorer. The rise in the money price of all commodities, which is special to that country, tends to discourage more or less every sort of industry that is carried on within it, and to enable foreign nations to provide most sorts of goods for less silver than its own workmen can afford to do, thus underselling them not only in the foreign but even in the home market.

It is the special situation of Spain and Portugal, as proprietors of the mines, to be the distributors of gold and silver to all the other countries of Europe. So those metals ought naturally to be somewhat cheaper in Spain and Portugal than elsewhere in Europe; but the difference should be no more than the amount of the freight and insurance; and the freight is no great matter because of the great value and small bulk of those metals, and their insurance is the same as that of any other goods of equal value. Spain and Portugal, therefore, would have suffered very little from their special

situation if they had not increased its disadvantages by their political institutions.

Spain by taxing the export of gold and silver, and Portugal by prohibiting it, load that export with the expense of smuggling, an expense that raises the value of those metals in other countries above what it is in their own. When you dam a stream of water, as soon as the dam is full as much water must run over the dam-head as if there was no dam at all. The prohibition of export cannot hold back in Spain and Portugal more gold and silver than they can afford to employ—i.e. more than the annual product of their land and labour will allow them to employ—in coin, plate, gilding, and other ornaments of gold and silver. When they have this amount, the dam is full and the whole stream that flows in afterwards must run over. [He now devotes about three pages to explaining how those two countries have been harmed by their policies regarding the export of gold and silver. Then:]

The bounty on the export of corn operates exactly in the same way as this absurd policy of Spain and Portugal. Whatever be the actual state of farming, it makes our corn somewhat dearer in the home market than it otherwise would be, and somewhat cheaper in the foreign; and as the average money price of corn regulates that of all other commodities, it considerably lowers the value of silver at home and tends to raise it a little in other countries. It enables foreigners—especially the Dutch—to eat our corn cheaper than they otherwise could do but even sometimes to eat it cheaper than our own people can do on the same occasions. . . . It prevents our own workmen from providing their goods for as small an amount of silver as they otherwise might do, and enables the Dutch to provide theirs for a smaller. It tends to make our manufactures somewhat dearer in every market than they otherwise would be, and to make theirs somewhat cheaper, this giving their industry a double

advantage over our own.

The bounty does not increase the amount of labour that a certain amount of corn can maintain and employ, but only the amount of silver it will exchange for; so what it does in the home market is to raise not the real price of our corn but only its nominal price. The result is that it discourages our manufactures, without doing any considerable service to our farmers or our country gentlemen. It does indeed put a little more money into the pockets of both groups, and it may be hard to persuade most of them that this is not doing them a considerable service. But if this money *sinks in its value*—in the quantity of labour, provisions, and home-made commodities it can purchase—by as much as it *rises in its quantity*, the service will be little more than nominal and imaginary.

There was just one set of men in the whole commonwealth to whom the bounty could be essentially serviceable. These were the corn merchants, the exporters and importers of corn.

- In years of plenty the bounty led to a greater export than would otherwise have taken place; and
- by stopping the plenty of one year from relieving the scarcity of another, it led in years of scarcity to a greater import than would otherwise have been necessary.

It increased the corn merchant's business at both times; and in times of scarcity it enabled him not only to import more corn but to sell it for a higher price and thus with a greater profit than he could have if one year's plenty had not been hindered from relieving another year's scarcity. So it is in this set of men that I have observed the greatest zeal for continuing or renewing of the bounty.

When our country gentlemen imposed on the export of foreign corn high duties which in times of moderate plenty

amounted to a prohibition, and when they established the bounty, they seemed to be imitating the conduct of our manufacturers. By the virtual prohibition, they secured for themselves the monopoly of the home market; and by the bounty, they tried to prevent that market from being overstocked with their commodity. By both they tried to raise its real value, in the same sort of way as our manufacturers had raised the real value of many sorts of manufactured goods. They apparently overlooked the great and essential difference that nature has established between •corn and •almost every other sort of goods. When, by the monopoly of the home market or a bounty on export, you enable our **woollen or linen** manufacturers to sell their goods for a better price than they otherwise could get for them, you raise not only the *nominal* but the *real* price of those goods; you make them equivalent to a greater quantity of labour and subsistence; you increase not only the nominal but the real profit, the real wealth and income of those manufacturers; and you enable them to live better themselves or to employ more labour in those particular manufactures. You really encourage those manufactures, directing towards them more of the country's industry than would properly go to them of its own accord. But when by similar devices you raise the nominal or money price of **corn**, you do not raise its real value; you do not increase the real wealth, the real income, of our farmers or our country gentlemen; you do not encourage the growth of corn, because you do not enable them to maintain and employ more labourers in raising it. The nature of things has stamped on corn a real value that cannot be altered by merely altering its money price. No bounty on export, no monopoly of the home market, can raise that value. The freest competition cannot lower it. That value is in each place equal to the amount of labour it can maintain in the way labour is commonly maintained

in that place, whether that be liberal, moderate, or scanty. Woollen or linen cloth are not the regulating commodities by which the real value of all other commodities must be finally measured and determined; corn is. The real value of every other commodity is finally measured and determined by the proportion which its average money price bears to the average money price of corn. The real value of corn does not vary with those variations in its average money price, which sometimes occur from one century to another; it is the real value of silver that varies with them. . . .

One would have thought that a bounty on production would more directly encourage the production of a commodity than a bounty on export could. Also, it would impose only one tax on the people—what they have to contribute to pay the bounty. It would tend to lower the price of the commodity in the home market, thereby partly repay them for what they had contributed, instead of imposing a second tax on them, which is what bounties on export do. Yet bounties on production have rarely been granted. The prejudices established by the commercial system have taught us to believe that national wealth arises more immediately from export than from production, so export has been more favoured as the more immediate means of bringing money into the country. . . . Also, it is not in the interests of merchants and manufacturers (the great inventors of all these expedients) that the home market should be overstocked with their goods, which a bounty on production might sometimes cause to happen. . . .

Something like a bounty on production, however, has sometimes been granted. The tonnage bounties given to the white herring and whale fisheries may be seen in this light. They tend directly, it may be supposed, to make the goods cheaper in the home market than they would have been otherwise. But in other respects their effects are the same

as those of bounties on export. By means of them, a part of the country's capital is employed in bringing to market goods whose price does not repay the cost, together with the ordinary profits of stock.

But though the tonnage bounties to those fisheries do not contribute to the nation's affluence, the following may be thought of them:

They contribute to the nation's defence by increasing the number of its sailors and shipping. This can sometimes be done by means of such bounties, at a much smaller expense than by keeping up a great standing navy (so to speak) in the same way as a standing army.

But the following considerations dispose me to believe that in granting at least one of these bounties the legislature has been grossly imposed on. [Smith spends about five pages on this topic; they are not included here. We pick up when he returns to the idea of bounties as an aid to national defence.]

If any particular manufacture was needed for the defence of the society, it might not always be prudent to depend on our neighbours to supply it; and if such a manufacture could not otherwise be supported at home it might not be unreasonable that all the other branches of industry should be taxed in order to support it. The bounties on the export of British-made sail-cloth and gunpowder may perhaps be vindicated on this principle. . . .

What is called a bounty is sometimes no more than a drawback, and thus not open to the same objections as a bounty properly so-called. For example: the bounty on exported refined sugar may be considered as a drawback of the duties on the brown and Muscovado sugars from which it is made. [He gives two other examples, and explains why those drawbacks are called 'bounties'.]

Premiums given by the public to skilled artisans and manufacturers who excel in their particular occupations are not open to the same objections as bounties. By encouraging extraordinary dexterity and ingenuity, they serve to keep up the emulation [here = 'desire to improve'] of the workmen actually employed in those occupations, and are not large enough to turn towards any one occupation a larger share of the country's capital than would go to it of its own accord. Their tendency is not to overturn the natural balance of employments but to make the work done in each as perfect and complete as possible. Also, the expense of premiums is very trifling, that of bounties very great. The bounty on corn alone has sometimes cost the public more than £300,000 in a single year.

I cannot conclude this chapter about bounties without remarking that the praises that have been bestowed on the law establishing the bounty on the export of corn and on the system of regulations connected with it are altogether unmerited. A detailed examination of the nature of the corn trade and of the principal British laws relating to it will sufficiently demonstrate the truth of this assertion. The great importance of this subject must justify the length of the digression. [Despite Smith's defence of its length, this 14-page 'digression' is not included here.]

Chapter 6: Treaties of commerce

When a nation binds itself by treaty

- to permit the entry of certain goods from one foreign country that it prohibits from all others, or
- to exempt the goods of one country from duties to which it subjects those of all others,

the merchants and manufacturers of the country whose commerce is so favoured must get great advantage from the

treaty. They enjoy a sort of monopoly in the country that is so indulgent to them. That country provides their goods with a market that is

- larger, because the goods of other nations are excluded or subjected to heavier duties, so that more of theirs are bought, and
- more advantageous, because they enjoy a sort of monopoly there, and can often sell their goods for a better price than they could if exposed to the free competition of all other nations.

But such treaties, though advantageous to the merchants and manufacturers of the favoured country, are disadvantageous to those of the favouring one. A monopoly is thus granted against them to a foreign nation; and they must often buy the foreign goods they need at a higher price than if the free competition of other nations was admitted. The part of its own product with which such a nation purchases foreign goods must consequently be sold cheaper; because when two things are exchanged for one another the cheapness of the one is a necessary consequence of—or rather it is the same thing as—the dearness of the other. So the exchangeable value of its annual product is likely to be lessened by every such treaty. But this lessening can hardly amount to any positive loss, but only to a reduction in the gain that it might otherwise make. . . . Even the favouring country, therefore, may still gain by the trade, though less than if there was a free competition.

Some treaties of commerce, however, have been supposed to be advantageous for reasons very different from those; and a commercial country has sometimes granted to certain goods of a foreign nation a monopoly of this kind against itself, because it expected that in the whole commerce between the two it would annually sell more than it would buy, and that a balance in gold and silver would be annually returned

to it. That is why the 1703 the treaty of commerce between England and Portugal has been so much commended. The following is a literal translation of that treaty, which consists of three articles only. [He now states the three articles of the treaty. Then:]

By this treaty, the crown of Portugal becomes bound to admit English woollens on the same footing as before the prohibition, i.e. not to raise the duties that had been paid before that time. But it does not become bound to admit them on any better terms than those of any other nation such as France or Holland. The crown of Great Britain, on the other hand, becomes bound to admit the wines of Portugal paying only two-thirds of the duty that is paid for those of France, the wines most likely to compete with them. So far this treaty is obviously advantageous to Portugal and disadvantageous to Great Britain.

Yet it has been celebrated as a masterpiece of the commercial policy of England. Portugal receives annually from the Brazils a greater quantity of gold than can be employed—whether as coin or plate—in its domestic commerce. The surplus is too valuable to be allowed to lie idle and locked up in coffers; and as it can find no advantageous market at home it must (despite any prohibition) be sent abroad and exchanged for something for which there is a more advantageous market at home. A large share of it comes annually to England, in return for English goods or goods of other European nations that receive their returns through England. . . .

Some years ago our merchants were out of humour with the crown of Portugal. Some privileges had been granted them, not by treaty but by the free grace of the Portuguese crown, in return for much greater favours, defence and protection from the crown of Great Britain; and then these privileges were infringed or revoked. So the people who had

usually been most interested in celebrating the Portugal trade became disposed to represent it as less advantageous than it had commonly been imagined. Nearly all of this annual import of gold, they claimed, was on account not of Great Britain but of other European nations; the value of the British goods sent to Portugal were nearly balanced by the fruits and wines annually imported from there.

Let us suppose, however, that the whole *was* on account of Great Britain, and that it amounted to a still greater sum than the recently estimated £2,600,000 a year (which is in fact too high). That would still not make this trade more advantageous than any other in which, for the same value sent out, we received an equal value of consumable goods in return.

Only a very small part of this import of gold could be employed as an annual addition to the •plate or the •coin of the kingdom. The rest would all have to be sent abroad in exchange for consumable goods of some kind. But it would be more advantageous for England •to purchase those consumable goods directly with the product of English industry than first •to purchase with that product the gold of Portugal and then •to purchase with that gold those consumable goods. A direct foreign trade of consumption is always more advantageous than a roundabout one; and to bring the same value of foreign goods to the home market requires much less capital in the one way than in the other. Thus, if a smaller share of its industry had been employed in producing goods for the Portugal market, and a greater share employed in producing goods for other markets that could provide consumable goods for which there is a demand in Great Britain, it would have been more to England's advantage. . . .

Even if Britain were entirely excluded from trade with Portugal, it would have little difficulty in procuring all the annual supplies of gold that it wants for the purposes of **plate**,

coin, or **foreign trade**. Gold, like every other commodity, can always be acquired somewhere or other by those who have the appropriate value to give for it. [He adds that gold would still go from Portugal to some other countries, and Great Britain could buy some of it from them—a little more expensively than buying it ‘at first hand’, but the difference would not be significant.]

The great annual import of gold and silver is for the purpose not of plate or of coin but of **foreign trade**. A roundabout foreign trade of consumption can be carried on more advantageously by means of these metals than of almost any other goods. Because they are the universal instruments of commerce they are more readily received in return for all commodities than any other goods; and because of their small bulk and great value it costs less to transport them than almost any other sort of merchandise, and they lose less of their value by being so transported. Thus, of all the commodities that are bought in one foreign country purely to be sold or exchanged for other goods in another, none are as convenient as gold and silver. The principal advantage of the Portugal trade is that it facilitates all the roundabout foreign trades of consumption that are carried on in Great Britain; though not a capital advantage, it is no doubt a considerable one.

It seems obvious enough that any annual addition that is made to the plate or the coin of the kingdom could require only a very small annual import of gold and silver. Even if we had no direct trade with Portugal, this small quantity could always be easily acquired somewhere.

Though the goldsmith’s trade is very considerable in Great Britain, most of the new **plate** that they sell is made from old plate melted down; so that the addition annually made to the whole plate of the kingdom cannot be very great. . . .

It is the same case with the **coin**. [Smith now embarks on about six pages of discussion of the use of gold in coinage: the effect of having coinage in which many of the coins weigh less than they should, the cost to the government of turning metal into coins, and so on. Running through all this is his contempt for the ‘mercantile’ theory, which equates money or gold with wealth.]

Chapter 7: Colonies

Part 1. Motives for establishing new colonies

The interest that led to the first settlement of European colonies in America and the West Indies was not altogether as plain and distinct as that which directed the establishment of the colonies of ancient Greece and Rome.

Each of the states of ancient Greece possessed only a very small territory; and when the people in any one of them multiplied beyond what that territory could easily maintain, some of them were sent in quest of a new habitation in some remote and distant part of the world; because the warlike neighbours who surrounded them made it difficult for any of them to enlarge its territory at home. The colonies of the Dorians resorted chiefly to Italy and Sicily, which before the foundation of Rome were inhabited by barbarous and uncivilised nations; the colonies of the Ionians and Aeolians, the two other great tribes of the Greeks, went to Asia Minor and the islands of the Aegean sea, whose inhabitants seem to have been in pretty much the same state as those of Sicily and Italy. Each mother city, though she considered the colony as a child—always entitled to great favour and assistance and owing in return much gratitude and respect—regarded it as an *emancipated* child over whom she claimed no direct authority or jurisdiction. The colony

settled its own form of government, enacted its own laws, elected its own magistrates [see Glossary], and made peace or war with its neighbours, as an independent state that had no reason to wait for the mother city's approval or consent. Nothing can be more plain and distinct than the interest that directed every such establishment.

Rome, like most of the other ancient republics, was originally founded on an agrarian law that divided the public territory among the citizens who composed the state. The course of human affairs. . . inevitably upset this original division, and often put lands that had been allotted for the maintenance of many families into the possession of a single person. A law that was made to remedy this was neglected or evaded, and the inequality of fortunes continually increased. Most of the citizens had no land; and the manners and customs of those times made it hard for a landless freeman to maintain his independence. [Smith explains that nearly all the farming, as well as 'trades and manufactures, even the retail trade' were manned by slaves who belonged to the rich.] So the citizens who had no land had hardly any means of subsistence except the handouts by the candidates at the annual elections. When the tribunes wanted to arouse the people against the rich and great, they reminded them of the ancient divisions of lands and claimed that the law restricting this sort of private property was the fundamental law of the republic. The people became clamorous to get land, and the rich and the great were no doubt perfectly determined not to give them any part of theirs. To satisfy them in some measure, therefore, they often proposed to send out a new colony. But Rome the conqueror did not need to turn her citizens out to seek their fortune through the wide world, without knowing where they were to settle, but assigned them lands generally in the conquered provinces of Italy. There they were still within the dominions of the

republic, and could never form an independent state; they were at best only a sort of corporation, which had the power to enact bye-laws for its own government but was always subject to the correction, jurisdiction, and legislative authority of the mother city. Sending out a colony of this kind not only gave some satisfaction to the people but often established a sort of garrison in a newly conquered province whose obedience might otherwise have been doubtful. A Roman colony, therefore, whether we consider the nature of the establishment itself, or the motives for making it, was altogether different from a Greek one. . . . But though the Roman colonies were in many ways unlike the Greek ones, the interest that prompted their establishment them was equally plain and distinct. Both institutions derived their origin from irresistible necessity or from clear and evident utility.

The establishment of European colonies in America and the West Indies arose from no necessity; and though the utility resulting from them has been very great, it is not as clear and evident. It was not understood at their first establishment, and was not the motive for that establishment or for the discoveries that led to it; and the nature, extent, and limits of that utility are perhaps not well understood even today.

During the 14th and 15th centuries the Venetians carried on a very advantageous commerce in spices and other East India goods, which they distributed among the other nations of Europe. They purchased them chiefly in Egypt, at that time under the dominion of the Mamelukes who were enemies of the Turks as were also the Venetians; and this union of interests, assisted by the money of Venice, formed a connection that gave the Venetians almost a monopoly of that trade.

The great profits of the Venetians tempted the greed of

the Portuguese. Through the 15th century they had been trying to find a sea route to the countries from which the Moors brought them ivory and gold dust across the desert. They discovered the Madeiras, the Canaries, the Azores, the Cape Verde islands, the coast of Guinea, that of Loango, Congo, Angola, and Benguela, and finally the Cape of Good Hope. They had long wished to share in the profitable traffic of the Venetians, and this last discovery opened to them a probable prospect of doing so. In 1497, Vasco de Gama sailed from Lisbon with four ships, and after a navigation of eleven months arrived at the coast of Indostan—thus completing a course of discoveries that had been pursued with great steadiness and little interruption for nearly a century.

Some years before this. . . . a Genoese pilot formed the still more daring project of sailing to the East Indies by the west. The situation of those countries was at that time very imperfectly known in Europe. The few European travellers who had been there had magnified the distance, perhaps through innocence and ignorance (what really was very large seemed almost infinite to those who could not measure it), or perhaps in order to inflate the marvellous nature of their own adventures in visiting regions so immensely remote from Europe. The longer the way was by the east, Columbus very justly concluded, the shorter it would be by the west. So he proposed to take that way, as the shortest and surest, and he had the good fortune to convince Isabella of Castile of the probability of his project. He sailed from Palos in August 1492, nearly five years before Vasco de Gama set out from Lisbon; and after a voyage of two to three months discovered some of the small Bahama or Lucyan islands and then the great island of Santo Domingo.

But the countries Columbus discovered in this and his subsequent voyages had no resemblance to the ones he had gone in quest of. Instead of the wealth, cultivation, and

populousness of China and Indostan, he found in all the other parts of the new world that he ever visited nothing but a country quite covered with forests, uncultivated, and inhabited only by naked and miserable savages. He was not very willing, however, to believe that they were not some of the countries described by Marco Polo, the first European who had left behind him any description of China or the East Indies. . . . Even when at last convinced that they were different, he still flattered himself that those rich countries were at no great distance. . . .

Because of this mistake by Columbus, the name 'Indies' has stuck to those unfortunate countries ever since; and when it was at last clearly discovered that the new 'indies' were different from the old Indies, the labels 'West Indies' and 'East Indies' were adopted.

It was important to Columbus that the countries he had discovered should be represented to the court of Spain as of very great consequence; but in what constitutes the real riches of every country—the animal and vegetable productions of the soil—there was at that time nothing to justify such a representation of them. [Smith goes into details about what plants and animals there were, and why they were not of value to the Europeans. The best bet was cotton, but even this 'could not at that time appear in the eyes of Europeans to be of much consequence'.]

·THE SEARCH FOR GOLD IN THE WEST·

Columbus then turned his view towards the minerals of the newly discovered countries; and in the richness of their productions of this third kingdom he flattered himself that he had found a full compensation for the insignificance of those of the other two. [The three 'kingdoms' are animal/vegetable/mineral.] The little bits of gold which the inhabitants ornamented their dress with, and which (he

was told) they often found in the rivers that fell from the mountains, were enough to satisfy him that those mountains abounded with the richest gold mines. Santo Domingo was therefore declared to be a country abounding with **gold**, and therefore (according to the prejudices not only of today but of those times) an inexhaustible source of **real wealth** to the crown and kingdom of Spain. On returning from his first voyage, Columbus was introduced with triumphal honours to the sovereigns of Castile and Aragon, and the principal productions of the countries he had discovered were carried in solemn procession before him. The only valuable part of them consisted in some little fillets, bracelets, and other ornaments of gold, and in some bales of cotton. The rest were mere objects of vulgar wonder and curiosity. . . ., which were preceded by six or seven of the wretched natives, whose singular colour and appearance added greatly to the novelty of the show.

On the strength of Columbus's claims the council of Castile determined to take possession of the countries whose inhabitants were plainly incapable of defending themselves. The pious purpose of converting them to Christianity sanctified the injustice of the project; but the sole motive for it was the hope of finding treasures of gold. To give this motive greater weight, it was proposed by Columbus that half of all the gold and silver found there should belong to the crown. This proposal was approved by the council.

As long as most of the gold that the first adventurers imported into Europe was acquired by such an easy method as plundering the defenceless natives, it was not perhaps very difficult to pay even this heavy (·50%·) tax; but once the natives had been stripped of all they had—which took only six or eight years in all the countries discovered by Columbus—so that more could be found only by digging for it in the mines, it was no longer possible to pay this tax. It

is said that the strict demand for all of it led at first to the total abandoning of the mines of Santo Domingo, which have never been worked since. It was soon reduced, therefore, to 33.3%, then to 20%, down to 10% and at last to 5% of the raw product of the gold mines. The tax on silver continued for a long time to be 20%, and was reduced to 10% only in the present century. But the first adventurers appear not to have been much interested in silver. Nothing less precious than gold seem to have been worthy of their attention.

All the other enterprises of the Spaniards in the New World, subsequent to those of Columbus, seem to have been prompted by the same motive. It was the sacred thirst for gold that carried Ovieda, Nicuessa, and Vasco Nugnes de Balboa to the Isthmus of Darien; that carried Cortes to Mexico, and Almagro and Pizarro to Chile and Peru. When those adventurers arrived at any unknown coast, their first inquiry was always whether there was any gold to be found there; and according to the answer they decided either to quit the country or to settle in it.

Of all the expensive and uncertain projects that bring bankruptcy on most of those who engage in them, there may be none more totally ruinous than the search for new silver and gold mines. It is the most disadvantageous lottery in the world, i.e. the one in which the gain of those who draw the prizes is smallest in proportion to the loss of those who draw the blanks; for although the prizes are few and the blanks many, the common price of a ticket is the whole fortune of a very rich man. Projects of mining, instead of replacing the capital employed in them together with the ordinary profits of stock, commonly absorb both capital and profit. So they are the projects that a prudent lawgiver, wanting to increase the capital of his nation, would *least* choose to give any special encouragement by directing towards them a greater share of that capital than would go to them of its own accord. . . .

But though the judgment of sober reason and experience concerning such projects has always been extremely unfavourable, the 'judgment' of human greed has commonly been quite otherwise. The same passion that has suggested to so many people the absurd idea of the philosopher's stone—a mythical substance that turns lead into gold—has suggested to others the equally absurd idea of immense rich mines of gold and silver. They did not consider that the value of those metals has always and everywhere arisen chiefly from their scarcity, which has arisen from •the small quantities of them that nature has anywhere deposited in one place, from •the hard and intractable substances she has almost everywhere surrounded those small quantities with, and consequently from •the labour and expense that are everywhere necessary to mine them. They flattered themselves that in many places they might find veins of those metals as large and as abundant as those that are commonly found of lead, copper, tin, or iron. The dream of Sir Walter Raleigh concerning the golden city and country of El Dorado may satisfy us that even wise men are not always exempt from such strange delusions. More than a hundred years after that great man's death, the Jesuit Gumila was still convinced of the reality of that wonderful country, spoke with great warmth (and, I dare say, with great sincerity) about how happy he would be to carry the light of the gospel to a people who could so well reward the pious labours of their missionary.

In the countries first discovered by the Spaniards, no gold and silver mines are at present known that are supposed to be worth working. The quantities of those metals that the first adventurers are said to have found there was probably much magnified, as well as the fertility of the mines that were worked immediately after the first discovery. What those adventurers were reported to have found, however,

was sufficient to inflame the greed of all their countrymen. Every Spaniard who sailed to America expected to find an El Dorado. And on this occasion fortune did what she has seldom done, by realizing to some extent the extravagant hopes of her devotees. In the discovery and conquest of Mexico and Peru (which were, respectively, about 30 and 40 years after Columbus's first expedition) she presented them with something not very unlike that profusion of the precious metals that they sought for.

Thus, a project of commerce to the East Indies gave rise to the first discovery of the West. A project of conquest gave rise to all the Spaniards' establishments in those newly discovered countries. The motive that excited them to this conquest was a project of gold and silver mines; and a series of events that no human wisdom could foresee made this project much more successful than its undertakers had any reasonable grounds for expecting.

The first adventurers of the other European nations who tried to make settlements in America were driven by the same chimerical views, but they were not equally successful. No silver, gold, or diamond mines were discovered in the Brazils until more than a hundred years after the first settlement there. In the English, French, Dutch, and Danish colonies none have yet been discovered, or none that are at present thought to be worth working. Yet the first English settlers in North America offered the king 20% of all the gold and silver found there, as a motive for granting them their patents. . . . To the expectation of finding gold and silver mines, those first settlers joined that of discovering a north-west passage to the East Indies. They have been disappointed in both.

Part 2. Causes of the prosperity of new colonies

The colony of a civilised nation that takes possession of a country that is either empty or so thinly inhabited that the natives easily give place to the new settlers, advances to wealth and greatness more rapidly than any other human society. [In this context 'greatness' means 'size of population'.]

The colonies carry out with them a knowledge of agriculture and of other useful arts, superior to what can grow up of its own accord, in the course of many centuries, among savage and barbarous nations. They also carry out with them the habit of subordination, some notion of the regular government that occurs in their own country, of the system of laws that support it, and of a regular administration of justice; and they naturally establish something of the same kind in the new settlement. Among savage and barbarous nations the natural progress of law and government is still slower than the natural progress of arts, once enough law and government have been established for the arts to be protected. Every colonist gets more land than he can possibly cultivate. He has no rent to pay, and hardly any taxes. No landlord shares with him in its product, and, the sovereign's share is commonly a mere trifle. The colonist has every motive to make as great as possible this product that is thus to be almost entirely his own. But his land is commonly so extensive that with all the industry of himself of other people whom he can employ he can seldom make it produce a tenth of what it is capable of producing. This makes him eager to collect labourers from all quarters, and to reward them with the most liberal wages. But those liberal wages, combined with the plenty and cheapness of land, soon make those labourers leave him so as to become landlords themselves, and to reward equally liberally other labourers who soon leave them for the same reason that they left their first

master. The liberal reward of labour encourages marriage. The children, during the tender years of infancy, are well fed and properly taken care of; and when they are grown up the value of their labour much more than makes up for the cost of their maintenance. When arrived at maturity, the high price of labour and the low price of land enable them to establish themselves in the same way that their fathers did before them. [Then a further paragraph, mainly repeating this one.]

The progress of many of the ancient Greek colonies towards wealth and greatness seems accordingly to have been very rapid. In a century or two several of them appear to have rivalled and even surpassed their mother cities. Syracuse and Agrigentum in Sicily, Tarentum and Locri in Italy, Ephesus and Miletus in Lesser Asia appear by all accounts to have been at least equal to any of the cities of ancient Greece. All the arts of refinement, philosophy, poetry, and eloquence seem to have been improved as highly in them as in any part of the mother country, and to have been cultivated as early as they were in the mother cities, although these had been established for so much longer. The two oldest schools of Greek philosophy, those of Thales and Pythagoras, were established one in an Asiatic colony the other in an Italian one. All those colonies had established themselves in countries inhabited by savage and barbarous nations who easily gave place to the new settlers. They had plenty of good land; and as they were altogether independent of the mother city they were free to manage their own affairs in the way that they judged was most suitable to their own interests. [The Roman colonies did less well, Smith says, mainly because they were not independent.]

In the plenty of good land the European colonies established in America and the West Indies resemble, and even greatly surpass, those of ancient Greece. In their dependence

on the mother state they resemble those of ancient Rome; but their great distance from Europe has in all of them lessened the effects of this dependence. Their location has placed them less in the view of their mother country and less in its power. Their conduct in pursuing their interests in their own way has often been *overlooked* because it was not known or not understood in Europe; and sometimes it has been simply *put up with* because their distance made it difficult to restrain it. Even the violent and arbitrary government of Spain has often had to recall or soften the orders it had given for the government of her colonies, for fear of a general insurrection. The progress of all the European colonies in wealth, population, and improvement has accordingly been very great.

Through its share of the gold and silver, the crown of Spain derived some revenue from its colonies from the moment of their first establishment; and it was a revenue of a nature to arouse in human greed the most extravagant expectation of still greater riches. The Spanish colonies, therefore, attracted very much the attention of their mother country; while those of the other European nations were for a long time in a great measure neglected. The former did not thrive better because of this attention, nor did the latter fare worse because of this neglect. In proportion to the extent of the country that they in some measure possess, the Spanish colonies are considered as less populous and thriving than those of almost any other European nation; and yet even *their* progress in population and improvement has been very rapid and very great. [He gives figures for the population-growth of certain cities, and reports on the economic improvements brought by the colonists. If the Europeans had not arrived and settled, he says,] it seems impossible that either of Peru or Mexico could have been as much improved or as well cultivated as at present, when

they are plentifully provided with all sorts of European cattle [see Glossary], and when the use of iron, of the plough, and of many of the arts of Europe have been introduced among them. But the populousness of every country must be in proportion to the degree of its improvement and cultivation. In spite of the cruel destruction of the natives that followed the conquest, these two large empires are probably more populous now than they ever were before; and the people are surely very different; for I think we must acknowledge that the Spanish creoles are in many respects superior to the former Indians.

[Now about five pages of history of the various European settlements in North America, their varying relationships to their mother countries, and consequent variations in how productive they have been.]

There are no colonies of which the progress has been more rapid than that of the English in North America.

The two great causes of the prosperity of all new colonies seem to be •the plenty of good land and •the liberty to manage their own affairs their own way.

In the plenty of good land the English colonies of North America, though no doubt very abundantly provided, are inferior to those of the Spaniards and Portuguese, and no better than some of those possessed by the French before the recent war. But the political institutions of the English colonies have been more favourable to the improvement and cultivation of this land than those of the other three colonising nations. There have been four aspects to this.

(1) Taking possession of uncultivated land, though not prevented altogether, has been more restrained in the English colonies than in any others. The colony law that •obliges every proprietor to improve and cultivate a certain proportion of his lands within a limited time, and that •declares that if he fails in this those neglected lands can be

granted to any other person, has had some effect although it has not perhaps been very strictly enforced.

(2) In Pennsylvania there is no right of primogeniture, and lands are divided equally among all the children of the family. [Division is less easy in other English colonies, Smith explains, but still easier than in most of the other European colonies, of whose situation he gives a highly technical account. He goes on to remind us of why this is important to affluence.] The plenty and cheapness of good land (I repeat) are the principal causes of the rapid prosperity of new colonies. Taking possession of very large stretches of land by the engrossing of land has the effect of destroying this plenty and cheapness, as well as being the greatest obstruction to its improvement; but the labour that is employed in the improving and cultivating land provides the greatest and most valuable product to the society. . . . So the labour of the English colonies is likely to provide a greater and more valuable product than that of any of the other three nations.

(3) Because of the moderation of their taxes, the product of the English colonists' labour is not only •likely to be greater and more valuable but also •something of which they can keep a greater proportion for themselves, storing it and employing it in putting into motion a still greater quantity of labour. The English colonists have never contributed anything towards the defence of the mother country, or towards the support of its civil government. They themselves, on the other hand, have so far been defended almost entirely at the expense of the mother country; and the cost of fleets and armies is enormously greater than the necessary expense of civil government. The expense of their own civil government has always been very moderate. It has generally been confined to what was needed to pay adequate salaries to the governor, to the judges, and to some other officers of the

civic administration, and for maintaining a few of the most useful public works. [He gives details for individual colonies; then goes on to remark on how much more expensively that Spanish, Portuguese and French colonies conduct their civil governments and on how much more demanding the church is in each of them, especially the first two.]

·TINKERING WITH THE COMMERCE OF THE COLONIES·

(4) In the disposal of their surplus product the English colonies have been more favoured, and have been allowed a larger market, than those of any other European nation. Every European nation has tried to monopolize to itself the commerce of its colonies, prohibiting the ships of foreign nations from trading to them and prohibiting them from importing European goods from any foreign nation. But the manner in which this monopoly has been exercised in different nations has been very different.

[One form of it, Smith says, is giving the whole commerce of a colony to one company, which is enormously hurtful to the colony's development. It was adopted by several colonising countries, which eventually gave it up 'on account of its absurdity', though Portugal recently adopted it for two of the principal provinces of Brazil. Another was to rule that the entire commerce of a colony must pass through one port in the mother country, leading (Smith explains how) to the colonists' having to sell cheap and buy dear. Spain used to do this; Portugal started it recently in all its colonies except the two just mentioned, where it did something 'still worse'.]

Other nations leave the trade of their colonies free to all their subjects, who may carry it on from all the ports of the mother country, needing no other license than the common despatches of the custom-house. In this case the number and geographical dispersal of the traders makes it impossible for them to enter into any general combination,

and competition is sufficient to stop them from making exorbitant profits. Under such a liberal policy the colonies can sell their own product—and buy the goods of Europe—at reasonable prices. Since the dissolution of the Plymouth company, when our colonies were in their infancy, this has been the policy of England. It has *generally* been France's also, and has been *uniformly* so since the dissolution of their so-called 'Mississippi company'. The profits of the trade that France and England carry on with their colonies, though no doubt somewhat higher than if the competition were free to all other nations, are by no means exorbitant; and thus the price of European goods is not extravagantly high through most of the past of the French and English colonies.

In the export of their own surplus product, the colonies of Great Britain are confined to the market of the mother country only for certain commodities. These having been enumerated in the act of navigation and in some other acts have been called 'enumerated commodities'. The rest are called 'non-enumerated', and may be exported directly to other countries, provided it is in British or plantation ships of which the owners and three quarters of the mariners are British subjects.

[Smith now devotes about four pages to details concerning what items have been enumerated and what have not, and to the motivations and effects of such proceedings. One notable sentence in this passage: 'Rum is a very important article in the trade which the Americans carry on to the coast of Africa, from which they bring back negro slaves in return.']

The most perfect freedom of trade—in enumerated and non-enumerated commodities—is permitted between the British colonies of America and the West Indies. Those colonies have become so populous and thriving that each of them finds in some of the others a great and extensive market for every part of its product. All together they make

a great internal market for one another's product.

But England's liberality towards the trade of her colonies has been confined chiefly to what concerns the market for their product, either in its rude state or in what may be called the very first stage of manufacture. The merchants and manufacturers of Great Britain choose to reserve to themselves the more advanced or more refined manufactures, even of colony product, and have prevailed on the legislature to prevent their establishment in the colonies, by high duties or absolute prohibitions. [He gives examples: refined (but not raw) sugar, steel (but not pig iron), manufactured woollen goods. Then:]

To prohibit a great people from making all that they can of every part of their own product, or from employing their stock and industry in the way that they judge most advantageous to themselves, is a manifest violation of the most sacred rights of mankind. Still, unjust as such prohibitions may be, they have so far not been very hurtful to the colonies. Among them land is still so cheap—and thus labour so dear—that they can import from the mother country almost all the more refined or advanced manufactures cheaper than they could make them for themselves. So even if they had not been prohibited from establishing such manufactures, their own interests would probably have stopped them doing so. In their present state of improvement, those prohibitions have no effect on their industry and are merely impertinent badges of slavery imposed on them, with no sufficient reason, by the groundless jealousy of mother country's merchants and manufacturers. In a more advanced state they might be really oppressive and intolerable.

In compensation for confining to her own market some of the colonies' most important productions, Great Britain gives to some of them an advantage in that market, by imposing higher duties on similar productions when imported from

other countries (sugar, tobacco, iron) or by giving bounties on their import from the colonies (hemp and flax, indigo, naval stores, building timber). . . .

With regard to the import of goods from Europe, England has likewise dealt more liberally with her colonies than any other nation. [He gives two paragraphs of details.]

The principal advisers for most of the regulations concerning the colony trade have been the merchants who conduct it. So it is not a surprise that in most of them the merchants' interests have been more considered than the interests of the colonies or the mother country. [He gives some details about this, and goes to describe a way in which the colonies' interests have clashed with those of the mother country, ending with this:] The progress of the linen manufacture of Great Britain, it is commonly said, has been a good deal retarded by the drawbacks on the re-export of German linen to the American colonies.

But though Great Britain's policy regarding the trade of her colonies has been dictated by the same mercantile spirit as that of other nations, it has on the whole been less illiberal and oppressive than that of any of them.

The English colonists are completely free to manage their own affairs their own way, except their foreign trade. Their liberty is in every respect equal to that of their fellow-citizens at home, and is secured in the same way, namely by an assembly of the representatives of the people, who claim the sole right of imposing taxes for the support of the colony's government. The authority of this assembly overawes the executive power; and neither the meanest nor the most obnoxious colonist—as long as he obeys the law—has anything to fear from the resentment of the governor or of any other civil or military officer in the province. The colonial assemblies are not always a very equal representation of the people, but they come nearer to being such than does the

house of commons in England; and because the executive power has not the means to corrupt them, or has no need to do so (because of the support it receives from the mother country), they are perhaps in general more influenced by the inclinations of their constituents. In the colony legislatures the councils correspond to the house of lords in Great Britain, but are not composed of a hereditary nobility. In some of the colonies—e.g. three of the governments of New England—those councils are not appointed by the king but chosen by the representatives of the people. In none of the English colonies is there any hereditary nobility. In all of them the descendant of an old colony family is of course more respected than an upstart of equal merit and fortune; but he is only more *respected*—he has no privileges by which he can be troublesome to his neighbours. Before the start of the present disturbances, the colony assemblies had not only the legislative but a part of the executive power. In Connecticut and Rhode Island they elected the governor. In the other colonies they appointed the revenue officers, who collected the taxes imposed by the assemblies, to which those officers were immediately responsible. So there is more equality among the English colonists than among the inhabitants of the mother country. Their manners are more republican; and their governments, those of three of the provinces of New England in particular, have hitherto been more republican too.

In contrast with this, colonies of Spain, Portugal, and France are subject to the absolute governments of the mother countries; and the discretionary powers that such governments commonly delegate to all their subordinate officers are exercised there with more than ordinary violence because of the colonies' great distance from the mother countries. Under any absolute government there is more liberty in the capital than in any other part of the country. The sovereign himself

can never have any reason or inclination to pervert the order of justice or oppress the great body of the people. In the capital, his presence somewhat overawes all his subordinate officers; whereas in the remoter provinces, from which the complaints of the people are less likely to reach him, those officers can exercise their tyranny with much more safety. And the European colonies in America are more remote than the most distant provinces of the largest empires that had ever been known before. The government of the English colonies may be the only one in the history of the world that could give perfect security to the inhabitants of such a very distant province. The administration of the French colonies has however always been conducted with much more gentleness and moderation than that of the Spanish and Portuguese. This superiority of conduct is suitable both to •the character of the French nation and to •the nature of their government (which forms the character of any nation). The French government, though arbitrary [see Glossary] and violent in comparison with that of Great Britain, is legal and free in comparison with those of Spain and Portugal.

•SLAVERY•

[In the middle of a dispensable discussion comparing the French colonies with the English ones in respect of the economics of sugar, Smith says some notable things about of slavery.] In all European colonies, the culture of the sugar-cane is carried on by negro slaves. The constitution of those who have been born in the temperate climate of Europe could not, it is thought, support the labour of digging the ground under the burning sun of the West Indies; and the culture of the sugar-cane today is all hand labour, though many people think that the drill plough might be introduced into it with great advantage. But just as the profit and success of the cultivation that is carried on by means of

cattle [see Glossary] depend on the good management of those cattle, so also the profit and success of that which is carried on by slaves must depend equally on the good management of those slaves; and I think it is generally allowed that in the good management of their slaves the French planters are superior to the English. Insofar as the law gives some weak protection to the slave against the violence of his master, it is likely to be better enforced in a colony where the government is largely arbitrary than in one where it is altogether free. In every country where the unfortunate law of slavery is established, the magistrate in protecting the slave is interfering in the management of the private property of the master; and in a free country—where the master may be a member of the colony assembly or an elector of such a member—he dares not do this except with the greatest caution and circumspection. The respect he is obliged to pay to the master makes it harder for him to protect the slave. But in a country where the government is in a great measure arbitrary, where it is usual for the magistrate to interfere even in the management of the private property of individuals—and perhaps to send them a *lettre de cachet* [a legal document that could lead to imprisonment without trial], if they do not manage it according to his liking—it is much easier for him to give some protection to the slave; and common humanity naturally disposes him to do so. The protection of the magistrate makes the slave less negligible in the eyes of his master, who is thereby induced to consider him with more regard and treat him with more gentleness. Gentle usage makes the slave more faithful and more intelligent, and therefore doubly more useful. He comes closer to the condition of a free servant, and may possess some degree of integrity and attachment to his master's interest—virtues that free servants often have but that a slave will never have if he is treated as slaves commonly are in countries where

the master is perfectly free and secure.

The history of all ages and nations shows, I think, that the condition of a slave is better under an arbitrary government than under a free one. In Roman history the first time we read of the magistrate interposing to protect the slave from the violence of his master is under the emperors. When Vidius Pollio, in the presence of Augustus, ordered one of his slaves, who had committed a slight fault, to be cut into pieces and thrown into his fish-pond, the emperor indignantly commanded him to emancipate immediately all his slaves, including that one. Under the republic no magistrate could have had authority enough to protect the slave, much less to punish the master.

Such have been the general outlines of the policy of the European nations with regard to their colonies. The policy of Europe, therefore, has very little to boast of, either in the original establishment or—so far as their internal government is concerned—in the subsequent prosperity of the colonies of America.

Folly and injustice seem to have been the principles [see Glossary] that drove the first project of establishing those colonies: the folly of hunting after gold and silver mines, and the injustice of coveting the possession of a country whose harmless natives, far from having ever injured the people of Europe, had received the first adventurers with every mark of kindness and hospitality.

The adventurers who formed some of the latter establishments had, along with the chimerical project of finding gold and silver mines, other motives more reasonable and more laudable; but even these motives do very little honour to the policy of Europe.

The English puritans, restrained at home, fled for freedom to America and established there the four governments of New England. The English catholics, treated with much

greater injustice, established that of Maryland; the quakers, that of Pennsylvania. The Portuguese Jews—persecuted by the inquisition, stripped of their fortunes, and banished to Brazil—introduced by their example some sort of order and industry among the transported felons and strumpets by whom that colony was originally peopled, and taught them how to grow the sugar-cane. In all these cases, what populated and cultivated America was European governments' disorder and injustice, not their wisdom and policy.

[After adding with some details that the founding of these colonies was mostly the work of private enterprise or of the governments of other colonies, owing very little to any governments in Europe, Smith concludes:]

In what way, therefore, has the policy of Europe contributed either to the first establishment, or to the present grandeur of the colonies of America? In one *and only one* way it has contributed a good deal: it bred and formed the men who were capable of achieving such great actions, and of laying the foundation of such a great empire; no other place in the world has ever •formed such men or •had a policy that *could* form them. The colonies owe to the policy of Europe the education and great views of their active and enterprising founders; and some of the largest and most important of them, so far as concerns their internal government, owe it hardly anything else.

Part 3. Europe's advantages from the discovery of America and of a route to the East Indies around Africa

Such are the advantages which the colonies of America have derived from the policy of Europe. What advantages has Europe derived from the discovery and colonisation of America?

Those advantages can be divided into

(1) the general advantages that Europe, considered as one large country, has derived from those great events, and

(2) the particular advantages that each colonising country has derived from *its* colonies because of the authority or dominion that it exercises over them.

(1) The general advantages that Europe as a whole has derived from the discovery and colonisation of America consist in **(a)** the increase of its enjoyments and **(b)** the increase of its industry.

(1a) The surplus product of America imported into Europe provides the inhabitants of this great continent various commodities that they could not otherwise have possessed—for convenience and use, for pleasure, or for ornament—thereby increasing their enjoyments.

(1b) Everyone agrees that the discovery and colonisation of America have contributed to increase the industry of •all the countries that trade with it directly (e.g. Spain, Portugal, France, and England), and of •all those that trade with it indirectly, through the medium of . . . the countries mentioned above. All such countries have obviously gained a larger market for their surplus product, and must consequently have been encouraged to increase its quantity.

It may be less obvious that those great events should likewise have encouraged the industry of countries such as Hungary and Poland, which may never have sent a single commodity of their own product to America; but it is certainly the case. Some of the product of America is consumed in Hungary and Poland, . . . and it must be purchased with something that either •is the product of the industry of Hungary and Poland or •was purchased with some part of that product. Thus the influx of commodities from America—many of which are new to Hungary and Poland—create a new and larger market for those countries' surplus product. They

raise its value, and thereby encourage its increase. Though no part of it may ever be carried to America, it may be carried to other countries that purchase it with a part of their share of the surplus product of America, and it may find a market by means of the circulation of the trade that was originally put into motion by the surplus product of America.

Those great events may even have increased the enjoyments and increased the industry of countries that never sent any commodities to America *and* never received any from it. [Smith's account of how this happens can easily be inferred from the preceding paragraph.]

The exclusive trade of the mother countries tends to diminish—or at least to keep below what they would otherwise have been—the enjoyments and the industry of all the European nations and especially of the American colonies in particular. It is a dead weight on the action of one of the great springs that drives a great part of the business of mankind. By making the colony's product dearer in all other countries, it lessens its consumption and thereby cramps the colony's industry and the enjoyments and the industry of all other countries, which •enjoy less when they pay more for what they enjoy, and •produce less when they get less for what they produce. . . . It is a clog which, for the supposed benefit of some particular countries, embarrasses the pleasures and encumbers the industry of all other countries, but of the colonies more than of any other. . . .

(2) The advantages that each colonising country derives from its own colonies are of two kinds: **(a)** the common advantages that every empire derives from the provinces under its dominion, and **(b)** the particular advantages that are supposed to result from provinces of such a special kind as the European colonies of America.

(2a) The common advantages that every empire derives from the provinces under its dominion consist in •the military

force they provide for its defence and •the revenue they provide for the support of its civil government. The Roman colonies provided each of these from time to time. The Greek colonies sometimes provided a military force, but seldom any revenue. . . . They were generally the mother city's allies in war, but seldom her subjects in peace.

The European colonies of America have never yet provided any **military force** for the defence of the mother country. Their military force has never yet been sufficient for their own defence; and in the wars the mother countries have been engaged in, the defence of the colonies has generally led to a considerable distraction of those countries' military forces. In this respect, therefore, *all* the European colonies have been causes of weakness rather than of strength to their respective mother countries.

The colonies of Spain and Portugal are the only ones to have contributed any **revenue** towards the defence of the mother country or the support of her civil government. The taxes levied on the colonies of other European nations—especially on those of England—have •seldom been equal to the expense laid out on them in time of peace, and •never sufficient to defray what they cost the mother country in time of war. So such colonies have been a source of expense, and not of revenue, to their respective mother countries.

(2b) The only advantages that such colonies give to their respective mother countries are the special ones that are supposed to result from provinces of such a special kind as the European colonies of America; and it is acknowledged that the sole source of all those special advantages is the exclusive trade.

Because of this exclusive trade, all the surplus product of the English colonies (for example) that consists in 'enumerated commodities' [see page 177] can be sent only to England. Other countries must afterwards buy it from her.

So it must be cheaper in England than in any other country, and must contribute more to increase England's enjoyments than any other country's. It must likewise contribute more to encourage her industry; because for all those parts of her own surplus product that England exchanges for those enumerated commodities she must get a better price than any other countries can get for similar parts of theirs when they exchange them for the same commodities. . . . So the exclusive trade of the colonies, in keeping down the enjoyments and the industry of the countries that do not possess it, gives an evident advantage to the countries that do possess it over those other countries.

But this advantage may be found to be a *relative* rather than an *absolute* advantage, giving a superiority to the country that enjoys it by depressing the industry and product of other countries rather than by raising those of that particular country above what they would naturally rise to in the case of a free trade.

For example: the tobacco of Maryland and Virginia, because of England's monopoly of it, certainly comes cheaper to England than it can do to France to whom England commonly sells a considerable part of it. But if France and other European countries been allowed a free trade to Maryland and Virginia, the tobacco of those colonies might by now have come cheaper than it actually does, to England as well as to those other countries. [He explains that the larger market would have led to increased production and thus to lower prices all around.] Thus, so far as that weed [Smith's word] can by its cheapness and abundance increase the enjoyments or the industry of England or any other country, it would probably, in the case of a free trade, have produced these effects in a greater degree than it can do at present. England would not have had any advantage over other countries. . . . She might have gained an absolute

advantage, but she would certainly have lost a relative one.

In order to obtain this relative advantage in the colony trade—in order to execute the invidious and malignant project of excluding other nations from any share in it—England has probably not only •sacrificed some of the absolute advantage that she and every other nation might have derived from that trade but has also •subjected herself to an absolute and a relative disadvantage in almost every other branch of trade.

When by the act of navigation [see page 151] England helped herself to the monopoly of the colony trade, the foreign capital that had previously been employed in it had to be withdrawn. The English capital that had previously conducted only a part of it was now supposed to conduct it all: the capital that had been supplying the colonies with only a part of the goods they wanted from Europe was now suppose to supply them with the whole. But it *could not* supply them with the whole; and the goods it did supply them with were necessarily **sold very dear**. The capital that had previously bought only a part of the surplus product of the colonies was now all that was employed to buy the whole. But it *could not* buy the whole at anywhere near the old price; and therefore whatever it did buy it necessarily **bought very cheap**. But in an employment of capital in which the merchant sold dear and bought cheap, the profit must have been very great, and much above the ordinary level of profit in other branches of trade. This superiority of profit in the colony trade was bound to attract from other branches of trade some of the capital that had previously been employed in them. . . .

* * * * *

[Smith goes on for about thirty pages, arguing in detail that monopolies of the colonial trade have been harmful to the mother countries and to their colonies, and more generally

that the handling of colonies by their mother countries has been profoundly and obstinately stupid. All that will be presented here of this material—which some printed-paper editions omit entirely—are a few notable episodes.]

* * * * *

. . . .Our manufactures for foreign sale, instead of being suited (as they were before the act of navigation) to the neighbouring market of Europe or the more distant one of countries around the Mediterranean sea, have mostly been accommodated to the still more distant one of the colonies; to the market in which they have the monopoly, rather than to that in which they have many competitors. The decline in other branches of foreign trade, which various writers have attributed to the excess and improper mode of taxation, the high price of labour, the increase of luxury, etc., has been caused purely by the overgrowth of the colony trade. . . .

. . . .This monopoly has necessarily contributed to keeping the rate of profit in all branches of British trade higher than it naturally would have been if all nations had been allowed a free trade to the British colonies. . . .

. . . .Our merchants often complain that the high wages of British labour cause their manufactures to be undersold in foreign markets; but they are silent about the high profits of stock. Complaining of other people's extravagant gain, they say nothing of their own. The high profits of British stock may contribute as much as the high wages of British labour do towards raising the price of British manufactures—and in some perhaps even more. . . .

. . . .British capital has partly been **drawn** from most branches of trade by the attraction of superior profit in the colony trade. . . . And it has partly been **driven** from them by the advantage that the high rate of profit established in

Great Britain gives to other countries in all the branches of trade of which Great Britain has not the monopoly. . . .

. . . The monopoly of the colony trade, by forcing towards it a much greater proportion of the capital of Great Britain than would naturally have gone to it, seems to have *broken* the natural balance that would otherwise have held among all the branches of British industry. Instead of being accommodated to many small markets, Great Britain's industry has been principally suited to one great market. Instead of running in many small channels, her commerce has been taught to run principally in one large channel. . . . Great Britain now resembles one of those unwholesome bodies in which some of the vital parts are overgrown, making them liable to many dangerous disorders that are unlikely in bodies in which all the parts are more properly proportioned. . . . [He gives an example: English terror—'more terror than they ever felt for a Spanish armada or a French invasion'—at the prospect of a break with the colonies.]

[After remarks about the troubles of Spain and Portugal:] In England, on the other hand, the natural good effects of the colony trade, helped by other causes, have largely conquered the bad effects of the monopoly. These causes seem to be:

- the general liberty of trade, which (despite some restraints) is at least equal to what it is in any other country;
- the liberty of exporting, duty free, almost all sorts of product of domestic industry to almost any foreign country;
- the unbounded liberty of transporting goods within our own country without having to give any account to any public office; and above all
- the equal and impartial administration of justice that makes the greatest British subject respect the rights of the meanest [see Glossary], and gives the greatest

and most effectual encouragement to every sort of industry by securing to every man the fruits of his own industry.

The manufactures of Great Britain have been advanced by the colony trade, but this has not been •by means of the monopoly of that trade but •in spite of it. The effect of the monopoly has been not to increase the quantity of the manufactures of Great Britain but to alter their quality and shape, adjusting them to fit a market from which the returns are slow and distant when they would otherwise have been shaped for a market from which the returns are frequent and near. . . .

By raising the rate of mercantile profit, the monopoly discourages the improvement of land. The profit of improvement depends on the difference between •what the land actually produces and what it can be made to produce by a certain application of capital. If this difference provides more profit than can be drawn from an equal amount of capital in any mercantile employment, the improvement of land will draw capital from all mercantile employments; if the profit is less, capital will flow the other way. [He goes on to explain that the increase in mercantile profit, though good for the merchant, is bad for the improvement of land and thus bad for the country.]

. . . The high rate of profit seems everywhere to have a further bad effect, namely destroying the •parsimony which in other circumstances is natural to the character of the merchant. When profits are high, the merchant sees •that sober virtue as superfluous and sees expensive luxury as better suited to the affluence of his situation. . . . And this sets a bad example. If his employer is attentive and parsimonious, the workman is likely to be so too; but if the master is dissolute and disorderly, the servant. . . . will shape his own life according to the example he sets him. . . .

The capital of the country gradually dwindles away, and the quantity of productive labour maintained in it grows less every day. [He cites the harm done to Spain and Portugal, 'those two beggarly countries' by 'the galling bands of their absurd monopoly'.]

To found a great empire for the sole purpose of raising up a people of customers may at first sight seem to be a project fit only for a nation of shopkeepers. Actually, it is a project altogether unfit for a nation of shopkeepers but extremely fit for a nation whose government is influenced by shopkeepers! Only statesmen influenced in that way could fancy that they will find some advantage in employing the blood and treasure of their fellow-citizens to found and maintain such an empire [i.e. an empire of customers]. Say to a shopkeeper 'Buy me a good estate, and I'll always buy my clothes at your shop, even if they are somewhat dearer than at other shops' and you will not find him very eager to embrace your proposal. But if someone bought you an estate, the shopkeeper would be much obliged to your benefactor if he urged you to buy all your clothes at his shop. England purchased for some of her subjects who found themselves uneasy at home a great estate in a distant country. The price was very small: instead of thirty years' purchase, the ordinary price of land in the present times, it amounted to little more than the expense of the various equipments that made the first discovery, reconnoitred the coast, and took a fictitious possession of the country. The land was good and very large; and the cultivators—having plenty of good ground to work on, and being for some time free to sell their product where they pleased—became (between 1620 and 1660) so numerous and thriving a people that the shopkeepers and other traders of England wanted to get for themselves the monopoly of their custom. So, without claiming to have paid any part of the original purchase money or the subsequent expense

of improvement, they petitioned the parliament that the cultivators in America might for the future be confined to their shop; first, for buying all the goods they wanted from Europe; and, secondly, for selling such of their product as those traders find it convenient to buy. They did not find it convenient to buy every part of it. Some parts of it if imported into England would have interfered with some of the trades which they themselves carried on at home. So they were willing for the colonists to sell those parts wherever they could, the further off the better; and on that account proposed that their market should be confined to the countries south of Cape Finisterre [= Spain and countries south of it]. A clause in the famous act of navigation established this truly shopkeeper proposal into a law.

The maintenance of this monopoly has been the principal or perhaps the only purpose of the dominion that Great Britain assumes over her colonies. In the exclusive trade, it is supposed, consists the great advantage of provinces, which have never yet provided either revenue or military force for the support of the civil government or the defence of the mother country. The monopoly is the principal badge of their dependence, and it is the sole fruit which has been gathered from that dependence. Whatever expense Great Britain has laid out in maintaining this dependence has really been laid out in order to support this monopoly. [He goes into details about the costs to Great Britain of the 'peace establishment' of North America, preventing or quelling 'colony quarrels', and concludes:] Under the present system of management, therefore, Great Britain derives nothing but loss from the dominion she assumes over her colonies.

[There is no chance, Smith says, that any country would voluntarily relinquish its colonies, because this would be 'mortifying to the country's pride' and contrary to the interests of various office-holders who get 'wealth and distinction'

from their roles in relation to the colonies. He writes about the enormous benefits that Great Britain and the American colonies would get from parting on good terms.]

[Smith discusses at great length the question of how colonies should be taxed, and builds into that discussion the idea that the colonies might send representatives to the British house of commons. If this were to happen, he says, it would present] a new and more dazzling object of ambition to the leading men of each colony. Instead of piddling for the little prizes that are to be found in the paltry raffle of colony faction they could hope—from the presumption that men naturally have in their own ability and good fortune—to draw some of the great prizes that sometimes come from the wheel of the great state lottery of British politics. . . .

The discovery of America, and that of a passage to the East Indies by the Cape of Good Hope, are the two greatest and most important events recorded in the history of mankind. . . . At the time when these discoveries were made, the Europeans' superiority of force was so great that they could commit with impunity every sort of injustice in those remote countries. In time the natives of those countries may grow stronger, or those of Europe weaker, and then the inhabitants of all quarters of the world may arrive at the equality of courage and force which, by inspiring mutual fear, is the only thing that can overawe the injustice of independent nations into some sort of respect for one another's rights. And nothing seems more likely to establish this equality of force than the mutual communication of knowledge and of all sorts of improvements that an extensive commerce from all countries to all countries is bound to carry along with it.

Chapter 8: Concluding discussion of the mercantile system

Though the encouragement of export, and the discouragement of import, are the two great engines by which the mercantile system proposes to enrich every country, with regard to some commodities it seems to follow an opposite plan: to discourage export and encourage import. But it claims that its ultimate object is always the same, to enrich the country by an advantageous 'balance of trade'. It discourages the export of the materials of manufacture and instruments of trade in order to give our own workmen an advantage, enabling them to undersell those of other nations in all foreign markets; and by restraining in this way the export of a few inexpensive commodities it proposes to cause a greater and more valuable export of others. It encourages the import of the **materials** of manufacture so that our own people may be enabled to work them up more cheaply, and thereby prevent a greater and more valuable import of the manufactured commodities. I cannot find in our statute book any encouragement for the import of the **instruments** of trade. When manufactures have reached a certain size, the *making* of the instruments of trade becomes the object of many important manufactures, and it would interfere too much with their interests if any particular encouragement were given to the import of such instruments. Thus, such import has often been prohibited. Thus the import of wool cards. . . . was prohibited under Edward IV; this prohibition was renewed under Elizabeth and has been continued and made perpetual by subsequent laws.

[Smith goes on at length and in detail regarding the devices that have been used to protect British manufacturers—prohibitions, bounties, duties, etc.—always at the expense of Great Britain as a whole. Much of this material will be

omitted here. A typically indignant sample of it is this:] By encouraging the import of foreign linen yarn, thereby bringing it into competition what our own people make, they try to buy the work of the poor spinners as cheap as possible. They are as intent on keeping down the wages of their own weavers as the earnings of the poor spinners; and it is *not* for the benefit of the workmen that they try to raise the price of the complete work or lower the price of the rude materials. It is the industry that is conducted for the benefit of the rich and the powerful that is principally encouraged by our mercantile system. That which is carried on for the benefit of the poor and the indigent is too often either neglected or oppressed. . . .

. . . .Our woollen manufacturers have been especially successful in persuading the legislature that the prosperity of the nation depended on the success and extension of their particular business. They have not only

- obtained a monopoly against the consumers, by an absolute prohibition of importing woollen cloths from any foreign country, but also
- obtained a monopoly against the sheep farmers by a similar prohibition of the export of live sheep and wool.

The severity of many of the laws which have been enacted for the security of the revenue is justly complained of, as imposing heavy penalties on actions that had always been understood to be innocent until the statutes declared them to be crimes. But I venture to say that the cruelest of our revenue laws are mild and gentle in comparison with some of those that the clamour of our merchants and manufacturers has extorted from the legislature for the support of their absurd and oppressive monopolies. Like the laws of Draco, these laws may be said to be all written in blood. [He goes into gruesome details, while reporting that the most ferocious

penalties may never have been inflicted, and that more recent laws have been milder, though still very severe. If someone exports something illegally, Smith says, the law ‘means to ruin him completely’.]

. . . .Our woollen manufacturers, in order to justify their demand of such extraordinary restrictions and regulations, confidently asserted that English wool was of a special quality, superior to that of any other country; that the wool of other countries could not be worked up into any tolerable manufacture without some mixture of English wool; that fine cloth could not be made without it; that therefore if the export of it could be totally prevented England could keep for herself almost the whole woollen trade of the world; and thus, having no rivals, could sell at what price she pleased and soon acquire the most incredible wealth by the most advantageous ‘balance of trade’. This doctrine, like most doctrines that are confidently asserted by a considerable number of people, was and still is implicitly believed by a much greater number—by almost all who are not acquainted with the woollen trade or who have not made particular inquiries. In fact, however, English wool is so far from being •necessary for the making of fine cloth that it is altogether •unfit for it. Fine cloth is made entirely from Spanish wool. You cannot make it with a Spanish/English mixture without somewhat spoiling and degrading the fabric of the cloth.

To do any harm to the interests of one order of citizens simply to promote the interests of some other is obviously contrary to the justice and equality of treatment that the sovereign owes to *all* the orders of his subjects. The prohibition of the export of wool certainly does some harm to the interests of the growers of wool simply to promote the interests of the manufacturers.

Every order of citizens is bound to contribute to the support of the sovereign or commonwealth. A tax of 5/- or

even of 10/- on the export of every tod [= about 28lbs] of wool would provide a very considerable revenue for the sovereign. It would harm the interests of the growers somewhat less than the prohibition does, because it probably would not lower the price of wool quite so much. It would provide a sufficient advantage to the manufacturer: he might not buy his wool quite so cheap as under the prohibition, but he would still buy it at least 5/- or 10/- cheaper than any foreign manufacturer could buy it, besides saving the freight and insurance that the foreigner would have to pay. It is hardly possible to devise a tax that could produce considerable revenue for the sovereign while causing so little inconvenience to anybody.

Despite all the penalties that guard it, the prohibition does not prevent the export of wool. It is well known that wool is exported in great quantities. The great difference between the price at home and the price in the foreign market presents such a temptation to smuggling that all the rigour of the law cannot prevent it. This illegal export is advantageous to nobody but the smuggler. A legal export subject to a tax—providing revenue for the sovereign, and thereby saving the imposition of perhaps more burdensome and inconvenient taxes—could be advantageous to all the subjects of the state.

[Smith now has about five pages of details about the various taxes, prohibitions in import and/or export, monopolies etc. with which British law has protected the interests of various classes of manufacturers. The 'enumerated commodities' that figure in this recital include, fuller's earth, tanned leather, gum arabic, beaver skins, coal, and also 'instruments of trade' such as looms. Then:]

When such heavy penalties were imposed on the export of the dead instruments of trade, it could hardly be expected that the living instrument, the artificer, would be allowed

to go free. Accordingly, by a law of George I any person convicted of enticing any artificer in any of the manufactures of Great Britain to go abroad to practise or teach his trade is liable for the first offence to a fine not exceeding £100 and to three months imprisonment, and until the fine is paid; and for the second offence to a fine at the discretion of the court and to imprisonment for twelve months, and until the fine is paid. By a law of George II this penalty is increased, for the first offence to £500 for every artificer so enticed, and to twelve months imprisonment, and until the fine is paid; and for the second offence to £1,000 and to two years imprisonment, and until the fine is paid. [Then some details about the fierce penalties to which the enticed artificer himself is liable, whether he goes abroad to work at his trade or to teach it.]

The laudable motive of all these regulations is to extend our own manufactures, not by their own improvement but by depressing those of all our neighbours, and by putting an end, as far as possible, to the troublesome competition of such odious and disagreeable rivals. [In that sentence, 'laudable' = 'praiseworthy' is of course meant sarcastically.] Our master manufacturers think it reasonable that *they* should have the monopoly of the ingenuity of all their countrymen. They have in some trades restricted how many apprentices can be employed at one time, and have in all trades required a long apprenticeship; in doing this they have been trying to confine the knowledge of their respective employments to as small a number as possible; yet they are unwilling to let any part of this small number go abroad to instruct foreigners.

The sole purpose of all production is consumption, and the interests of the producer ought to be attended to only so far as this may be necessary for promoting the interests of the consumer. That maxim is so perfectly self-evident that it would be absurd to set about proving it. But in

the mercantile system the interests of the consumer are almost constantly sacrificed to those of the producer; and the system seems to think that the ultimate end and object of all industry and commerce is production, not consumption.

In the restraints on the import of all foreign commodities that can compete with those of our own growth or manufacture, the interests of the home consumer are obviously sacrificed to those of the producer. It is altogether for the benefit of the producer that the consumer is obliged to pay the higher price that this monopoly almost always causes.

It is solely for the benefit of the producer that bounties are granted on the export of some of his productions. The home consumer has to pay •the tax that is necessary for paying the bounty and •the even greater tax that necessarily arises from the rise in the price of the commodity in the home market.

In the system of laws established for the management of our American and West Indian colonies, the home consumer's interests have been sacrificed to the producer's with an even more extravagant profusion than in all our other commercial regulations. A great empire has been established purely so as to raise up a nation of customers who would be obliged to buy from the shops of our producers all the goods they could supply them with. For the sake of that little price-rise that this monopoly might provide our producers, the home consumers have been burdened with the whole expense of maintaining and defending that empire. For this purpose, and *only* for this purpose, in the two last wars more than £200,000,000 have been spent, and a new debt of more than £170,000,000 has been contracted, over and above all that had been expended for the same purpose in former wars. The interest on this debt alone is greater than. . . .the whole value of the colony trade. . . .

Chapter 9: Agricultural systems of political economy, according to which the sole source of a country's wealth is the product of its land

The agricultural systems of political economy will not require as long an explanation as the one I thought I needed to give for the mercantile = commercial system. The system that represents the product of a country's land as the sole source of its revenue and wealth has, so far as I know, never been adopted by any nation, and today exists only in the speculations of a few men of great learning and ingenuity in France. It surely would not be worthwhile to examine at great length the errors of a system that never has and probably never will do harm in any part of the world. I shall try to explain as clearly as I can, the broad outlines of this very ingenious system.

[This economic 'system' is widely regarded as the first serious attempt at theoretical economics, Smith's being the second. Its founder was François Quesnay, whom Smith will discuss.]

M. Colbert, the famous minister of Louis XIV,. . . .had abilities in every way fitted for introducing method and good order into collecting and spending the public revenue. Unfortunately he embraced all the prejudices of the mercantile system, which is essentially a system of restraint and regulation of a kind that could hardly fail to be agreeable to a laborious and plodding man of business who was accustomed to regulating the different departments of public offices, and establishing the necessary checks and controls for confining each to its proper sphere. He tried to regulate the industry and commerce of a large country on the same model as the departments of a public office; and instead of allowing every man to pursue his own interests in his own way—on the liberal plan of equality, liberty, and justice—he bestowed extraordinary privileges on certain branches of

industry while putting others under equally extraordinary restraints. Not only was he, like other European ministers, disposed to encourage the industry of the towns more than that of the country; but he was willing to support the industry [see Glossary] of the towns by keeping down the industry of the country. In order to make provisions cheap for the inhabitants of the towns, thereby encouraging manufactures and foreign commerce, he *prohibited* the export of corn, thus excluding the inhabitants of the country from every foreign market for the most important part of the product of their industry. This prohibition, combined with

- the restraints imposed by the old provincial laws of France on the transportation of corn from one province to another, and
- the arbitrary and degrading taxes that are levied on the cultivators in almost all the provinces,

discouraged France's agriculture and kept it down very much below the state it would naturally have risen to with such fertile soil and such a happy climate. This state of discouragement and depression was felt somewhat in every part of the country, and many inquiries were embarked on concerning the causes of it. One of those causes seemed to be the preference that M. Colbert's institutions gave to the industry of the towns above that of the country.

If the rod is bent too much one way, says the proverb, to make it straight you must bend it as much the other way. The French philosophers who have proposed the system that represents agriculture as the sole source of the revenue and wealth of every country, seem to have adopted this proverbial maxim. Just as in the plan of M. Colbert the industry of the towns was certainly overvalued in comparison with that of the country, so in their system it seems to be as certainly under-valued.

·WHAT THE AGRICULTURAL SYSTEM SAYS·

They divide the different orders of people who have ever been supposed to contribute towards the annual product of the country's land and labour into three classes:

- (1) the proprietors of land,
- (2) the cultivators, farmers and country labourers, whom they honour with the special label 'the productive class', and
- (3) the class of artificers, manufacturers, and merchants, whom they try to degrade by the humiliating label 'the barren or unproductive class'.

(1) The class of proprietors contributes to the annual product by the expense they occasionally lay out on the improvement of the land, and on the buildings, drains, enclosures and other improvements that they make or maintain on it. By means of this the cultivators can with the same amount of capital raise more and consequently pay a greater rent. This advanced rent can be considered as the interest or profit due to the proprietor on the expense or capital that he employs in improving his land. Such expenses are in this system called 'ground expenses' (*dépenses foncières*).

(2) The cultivators or farmers contribute to the annual product by what this system calls the 'original expenses' and 'annual expenses' (*dépenses primitives* and *dépenses annuelles*) that they lay out on the cultivation of the land. The original expenses consist in the instruments of husbandry, the stock of cattle, the seed, and the maintenance of the farmer's family, servants, and cattle during at least a great part of the first year of his occupancy, or until he can get some return from the land. The annual expenses consist in the seed, the wear and tear of instruments of husbandry, and the annual maintenance of the farmer's servants and cattle, and of his family too so far as any them can be considered as servants employed in cultivation. That

part of the land's product that remains to him after paying the rent ought to be sufficient to replace for him

- within a reasonable time, at least during the term of his occupancy, the whole of his **original** expenses together with the ordinary profits of stock; and
- annually the whole of his **annual** expenses, also together with the ordinary profits of stock.

Those two sorts of expenses are two lots of capital that the farmer employs in cultivation; and unless they are regularly restored to him together with a reasonable profit he cannot carry on his employment on a level with other employments. From a regard to his own interests he must desert farming as soon as possible and seek some other employment for his capital. The part of the product of the land that is thus necessary for enabling the farmer to continue his business ought to be considered as a fund dedicated to cultivation: if the landlord violates it he necessarily reduces the product of his own land and before long disables the farmer from paying this extortionate rent or even paying the reasonable rent that the landlord might otherwise have got for his land. The rent that *properly* belongs to the landlord is no more than the land's *net product*, i.e. what remains after paying *all* the expenses of raising the whole product. Because the labour of the cultivators (over and above paying all those necessary expenses) provides a net product of this kind, this class of people are in this agricultural system marked off by the honourable label 'the productive class'. And because their original and annual expenses (over and above replacing their own value) generate the annual reproduction of this net product, this system calls them 'productive expenses'.

The so-called ground expenses—i.e. what the landlord spends on improving his land—are in this system honoured with the label 'productive expenses'. Until the whole of those expenses together with the ordinary profits of stock have

been completely repaid to him by the advanced rent that he gets from his land, that advanced rent ought to be regarded as sacred and inviolable

- by the church; otherwise by discouraging the improvement of land it discourages the future increase of its own tithes; and
- by the king; otherwise by discouraging the improvement of land he discourages the future increase of his own taxes. . . .

The agricultural system considers only three sorts of expenses as 'productive': the ground expenses of the landlord and the original and the annual expenses of the farmer. All other expenses, and all other orders of people—even those who would ordinarily be thought of as the most productive—are represented as altogether barren and unproductive.

(3) Artificers and manufacturers, whose industry would ordinarily be thought of as increasing so much the value of the rude product of the land, are in this system represented as an altogether barren and unproductive class of people. Their labour is said to replace only the stock that employs them together with its ordinary profits. That stock consists in the materials, tools, and wages advanced to them by their employer, and is the fund destined for their employment and maintenance. Its profits are the fund destined for the maintenance of their employer. In advancing to them the stock of materials, tools, and wages necessary for their employment, their employer is advancing to himself what is necessary for his own maintenance; and he generally proportions this maintenance to the profit he expects to make by the price of their work. If its price does not cover the maintenance he advances to himself, as well as the materials, tools, and wages he advances to his workmen, it obviously does not repay him for the whole expense he lays out on it. So the profits of manufacturing stock are

not—as the rent of land is—a net product that remains after completely repaying the whole expense that must be laid out in order to obtain them.

- The farmer's stock yields him a profit and also yields a rent to someone else; whereas
- the master manufacturer's stock yields him a profit but provides nothing for anyone else.

So the expense laid out in employing and maintaining artificers and manufacturers merely serves to continue the existence of its own value (so to speak), and does not produce any new value. It is therefore an altogether barren and unproductive expense. In contrast with this, the expense laid out in employing farmers and country labourers continues the existence of its own value and also produces a new value, namely the rent of the landlord. So it is a productive expense. . . .

The labour of artificers and manufacturers never adds anything to the value of the whole annual amount of the rude product of the land. It does add greatly to the value of some parts of it; but the consumption of other parts that this causes is precisely equal to the value it adds to those parts; so that the value of the whole amount is not at any one moment in the least increased by it. For example:

Someone who works the lace of a pair of fine ruffles may raise the value of a pennyworth of flax to £30 sterling. But though at first sight he appears thereby to multiply the value of a part of the rude product about 7,200 times, he really adds nothing to the value of the whole annual amount of the rude product. The working of that lace costs him (say) two years' labour. The £30 he gets for it when it is finished is no more than the repayment of the subsistence he advances to himself during those two years. The value he adds to the flax by every day's, month's, or year's labour

merely replaces the value of his own consumption during that day, month, or year. At no moment of time, therefore, does he add anything to the value of the whole annual amount of the rude product of the land. . . .

The extreme poverty of most of the persons employed in this expensive though trifling manufacture may satisfy us that the price of their work does not usually exceed the value of their subsistence. It is otherwise with the work of farmers and country labourers. The rent of the landlord is a value which, in ordinary cases, it is continually producing over and above replacing, in the most complete manner, the whole consumption, the whole expense laid out on the employment and maintenance both of the workmen and of their employer.

The only way for artificers, manufacturers, and merchants to increase the revenue and wealth of their society is by parsimony—or, as the agricultural-system theorists put it, by 'privation'—i.e. depriving themselves of a part of the funds destined for their own subsistence. They annually reproduce nothing but those funds. So unless they annually save some part of them, annually depriving themselves of the enjoyment of some part of them, the revenue and wealth of their society can never be even slightly increased by their industry. This is in contrast with farmers and country labourers, who can enjoy completely the whole funds destined for their own subsistence while also providing a net product and thereby increasing the revenue and wealth of their society. So nations like France or England which largely consist of proprietors and cultivators can be enriched by industry and enjoyment; whereas nations like Holland and Hamburg which are composed chiefly of merchants, artificers, and manufacturers, can grow rich only through parsimony and privation. Just as the interests of nations so differently circumstanced are very different, so also is the common

character of the people. In nations of the former kind, liberality, frankness, and good fellowship, naturally make a part of their common character; in the latter, narrowness, meanness, and a selfish disposition, averse to all social pleasure and enjoyment.

The unproductive class (merchants, artificers, and manufacturers) is maintained and employed entirely at the expense of the other two classes (proprietors and cultivators). They provide it both with the materials of its work and with the corn and cattle that it consumes while it is employed about that work. The proprietors and cultivators ultimately pay •the wages of all the workmen of the unproductive class and •the profits of all their employers. Strictly speaking, those workmen and their employers are the servants of the proprietors and cultivators; they work outdoors, unlike domestic servants who work inside; but servants of both kinds are equally maintained at the expense of the same masters. Their labour is equally unproductive. It adds nothing to the value of the sum total of the rude product of the land. Instead of increasing the value of that sum total, it is an expense that must be paid out of it.

The unproductive class, however, is *very* useful to the other two classes. Through the industry of merchants, artificers, and manufacturers, the proprietors and cultivators can purchase the •foreign goods and •manufactured product of their own country that they want, spending much less of the output of their own labour than they have to spend if they tried in an awkward and unskilful manner to import •the one or make •the other. By means of the unproductive class the cultivators are delivered from many cares that would otherwise distract their attention from the cultivation of land. The superiority of product that they can raise because of this undivided attention is fully sufficient to pay the whole expense that the maintenance and employment of the

unproductive class costs either the proprietors or themselves; and it means that the industry of merchants, artificers, and manufacturers contributes indirectly to increase the product of the land. . . .

It can never be in the interests of the proprietors and cultivators to restrain or to discourage the industry of merchants, artificers, and manufacturers. The more liberty this unproductive class enjoys, the greater will be the competition in all the trades that compose it, and the cheaper will the other two classes be supplied with foreign goods and the manufactured product of their own country.

It can never be in the interests of the unproductive class to oppress the other two classes. What maintains and employs the unproductive class is the land's surplus product, i.e. what remains after deducting the maintenance of the cultivators and of the proprietors. The greater this surplus, the greater must likewise be the maintenance and employment of the unproductive class. The establishment of perfect justice, perfect liberty, and perfect equality is the simple secret that most effectively secures the greatest prosperity for all three classes.

Some states such as Holland and Hamburg consist chiefly of this unproductive class; but they too are maintained and employed entirely at the expense of the proprietors and cultivators of land—only these are in some other country. . . .

But such mercantile states are *very* useful to the inhabitants of those other countries. They help to fill a very important void, supplying the place of the merchants, artificers, and manufacturers whom the inhabitants of those countries ought to find at home but don't find there because of some defect in their policy.

It can never be in the interests of those landed nations (if I may so call them) to discourage the industry of such mercantile states by imposing high duties on their trade or

on the commodities they provide. Such duties would make those commodities dearer and thus lower the real value of the surplus product of their own land with which those commodities are purchased. Such duties could only discourage •the increase of that surplus product and thus •the improvement and cultivation of their own land. The most effective way of raising the value of that surplus product—encouraging its increase and consequently the improvement and cultivation of their own land—would be to allow the most perfect freedom to the trade of all such mercantile nations.

This perfect freedom of trade would even be the most effective way for the landed nations eventually to have all the artificers, manufacturers, and merchants they needed—filling up that very important void in the best and most advantageous manner. [Then a page of details about how this would happen. Then:]

According to this liberal and generous system, therefore, the most advantageous way for a landed nation to raise up artificers, manufacturers, and merchants of its own is to grant the most perfect freedom of trade to the artificers, manufacturers, and merchants of all other nations. It thereby raises the value of the surplus product of its own land, whose continual increase gradually establishes a fund which is certain eventually to raise up all the artificers, manufacturers, and merchants that it needs.

When a landed nation goes the other way, oppressing by high duties or prohibitions the trade of foreign nations, it hurts its own interests in two ways. **(i)** By raising the price of all foreign goods and all sorts of manufactures, it necessarily lowers the real value of the surplus product of its own land with which it purchases those foreign goods and manufactures. **(ii)** By giving a sort of monopoly of the home market to its own merchants, artificers, and manufacturers, it raises the rate of mercantile and manufacturing profit as

compared with that of agricultural profit; and this •draws from agriculture a part of the capital that had previously been employed in it or •hinders from going to it a part of what would otherwise have gone to it. . . . Agriculture is thus made less advantageous, and trade and manufactures more advantageous, than they otherwise would be. . . .

Even if by this oppressive policy a landed nation could raise up artificers, manufacturers, and merchants of its own somewhat sooner than it could do by the freedom of trade (and it is far from certain that it would), it would raise them up *prematurely*, so to speak, i.e. before it was perfectly ripe for them. By too hastily raising up one kind of industry it would depress another more valuable kind. . . .

M. Quesnay, the ingenious and profound author of the agricultural system, presents some arithmetical formulas which represent how the land's annual product is distributed among the three classes above mentioned [•proprietors, •farmers, and •artificers/manufacturers/merchants], and how it is that the labour of the unproductive class does no more than replace the value of its own consumption without increasing the value of that sum total. The first of these formulas, to which he gives the honorific title 'the Economical Table', represents how he thinks this distribution occurs in a state of the most perfect liberty and (therefore) of the highest prosperity; in a state where the annual product provides the greatest possible net product, and where each class enjoys its proper share of the whole annual product. Some subsequent formulas represent how he thinks this distribution is made in different states of restraint and regulation—states in which the •proprietors or the •artificers etc. are more favoured than the •farmers, thus encroaching on the share that ought properly to belong to this productive class. Every such encroachment—every violation of the natural distribution that the most perfect liberty [see Glossary]

would establish—must, according to this system, necessarily lower year by year the value and sum total of the annual product, inevitably causing a gradual decline in the real wealth and revenue of the society; a decline whose speed depends on how greatly the natural distribution that perfect liberty would establish has been violated. Those subsequent formulas represent the different degrees of decline which, according to this system, correspond to the different degrees in which this natural distribution of things is violated.

·WHAT IS WRONG WITH THE AGRICULTURAL SYSTEM·

Some theorising physicians seem to have imagined that the health of the human body could be preserved only by a certain precise regimen of diet and exercise, with every tiny violation leading to some disease or disorder whose severity will be proportional to the degree of the violation. Actually, experience seems to show that the human body often preserve the most perfect state of health under a vast variety of regimens, including some that are generally believed to be far from perfectly wholesome. But the healthful state of the human body contains in itself some unknown principle [see Glossary] of preservation that can prevent or correct many of the bad effects even of a very faulty regimen. M. Quesnay, who was himself a theorising physician, seems to have entertained a similar notion concerning the political body, imagining that it would prosper only under a certain precise regimen, the exact regimen of perfect liberty and perfect justice. He seems not to have considered that in the political body the natural effort that every man continually makes to better his own condition is a principle of preservation that can prevent and correct many of the bad effects of a political economy that is in some degree both unfair and oppressive. Such a political economy will somewhat retard the natural progress of a nation towards wealth and prosperity, but it

cannot stop it altogether, still less make it go backwards. If a nation could not prosper without the enjoyment of perfect liberty and perfect justice, no nation in the world could ever have prospered! Fortunately, in the political body the wisdom of nature has made ample provision for remedying many of the bad effects of man's folly and injustice, just as it has done in the natural body for remedying those of his sloth and intemperance.

The chief error of this system, however, seems to lie in its representing the class of artificers, manufacturers, and merchants as barren and unproductive. The following ·five· observations may serve to show how wrong this is.

(1) It is admitted that this class reproduces annually the value of its own annual consumption, and at least continues the existence of the stock or capital that maintains and employs it. This makes it very wrong to call it 'barren' or 'unproductive'. We would not call a marriage barren or unproductive if it produced only a son and a daughter to replace the father and mother, not increasing the number of the human species. . . . Just as a marriage providing three children is *more* productive than one that provides only two, so the labour of farmers and country labourers is *more* productive than that of merchants etc.; but this does not make the latter class barren or unproductive.

(2) So it seems quite wrong to consider artificers, manufacturers, and merchants in the same light as domestic servants. The labour of domestic servants does not continue the existence of the fund that maintains and employs them. Their maintenance and employment is altogether at the expense of their masters, and the work they do is not of a nature to repay that expense. Their work consists in services that usually perish in the very instant of their performance, and does not fix or realize itself in any vendible commodity that can replace the value of their wages and

maintenance. Whereas the labour of artificers, manufacturers, and merchants naturally does fix and realize itself in some such vendible commodity. That is why in chapter 3 I have classed artificers, manufacturers, and merchants among the productive labourers, and domestic servants among the barren or unproductive.

(3) It seems wrong to say that the labour of artificers, manufacturers, and merchants does not increase the real revenue of the society. Let us grant that the value of the daily, monthly, and yearly •consumption of this class is exactly equal to the value of its daily, monthly, and yearly •production; it does not follow that its labour adds nothing to the society's real revenue, to the real value of the annual product of its land and labour. Suppose for example that an artificer in the first six months after harvest carries out £10 worth of work, at the same time consuming £10 worth of corn and other necessities; he is nevertheless adding the value of £10 to the annual product of the society's land and labour. While he has been consuming a half-yearly revenue of £10 worth of corn and other necessities, he has produced an equal value of work, capable of purchasing, either to himself, or to some other person, an equal half-yearly revenue. So the value of what has been consumed and produced during these six months is equal not to £10 but to £20. It may well be that no more than £10 worth of this value ever exists at any one moment of time. But if the £10 worth of corn and other necessities that the artificer consumes had been consumed by a soldier or a domestic servant, the value of that part of the annual product that existed at the end of the six months would have been £10 less than it actually is in consequence of the labour of the artificer. . . .

(4) Farmers and country labourers can no more increase, without parsimony, the real revenue, the annual product of the land and labour of their society than can artificers,

manufacturers, and merchants. The annual product of a society's land and labour can be increased only **(a)** by some improvement in the productive powers of the useful labour actually maintained within it or **(b)** by some increase in the quantity of that labour.

The improvement in the productive powers of useful labour depends on improvement in •the ability of the workman and in •the machinery he works with. But the labour of artificers and manufacturers, because it can be more subdivided and the labour of each workman reduced to a greater simplicity of operation, than that of farmers and country labourers; so it is likewise capable of both these sorts of improvement in a much higher degree [see Book I chapter 1]. So the class of cultivators can have in this respect no sort of advantage over that of artificers and manufacturers.

The increase in the quantity of useful labour actually employed within a society must depend entirely on the increase of the capital that employs it; and the increase of that capital must be exactly equal to the amount of the savings from the income of the persons who manage and direct the employment of that capital or of some other persons who lend it to them. If merchants, artificers, and manufacturers are, as this system seems to suppose, naturally more inclined to parsimony and saving than proprietors and cultivators, they are to that extent more likely to increase the quantity of useful labour employed within their society, and consequently to increase its real income, the annual product of its land and labour.

(5) Finally, even if the agricultural system were right in holding that the revenue of any country's inhabitants consists solely in the quantity of subsistence that their industry can procure for them, still the revenue of a trading and manufacturing country must—other things being equal—always be much greater than that of a country with no

trade or manufactures. . . . A small quantity of manufactured product purchases a large quantity of rude product. So a trading and manufacturing country naturally purchases with a small part of its manufactured product a large part of the rude product of other countries; whereas a country without trade and manufactures usually has to purchase, at the expense of a large part of its rude product, a small part of the manufactured product of other countries. . . . The inhabitants of one country must always enjoy a much greater quantity of subsistence than their own lands, in the actual state of their cultivation, could provide. The inhabitants of the other must always enjoy a much smaller quantity.

Yet this system, with all its imperfections, is perhaps the nearest approximation to the truth that has yet been published on the subject of political economy; and that makes it well worth the consideration of anyone who wishes to examine with attention the principles of that very important science. . . . In representing the wealth of nations as consisting not in the unconsumable riches of money but in the consumable goods annually reproduced by the labour of the society, and in representing perfect liberty as the only effective device for making this annual reproduction the greatest possible, its doctrine seems to be in every respect as just as it is generous and liberal. Its followers are very numerous, and its paradoxical thesis about the 'unproductive' nature of manufacturing labour may have helped to increase the number of its admirers, because men are fond of paradoxes and of seeming to understand things that surpass the comprehensions of ordinary people. For some years past they have made a pretty considerable sect, distinguished in the French republic of letters by the name of the 'Economists'. Their works have certainly been of some service to their country, not only by bringing into general discussion many subjects that had never been well

examined before, but by somewhat influencing the public administration in favour of agriculture. It is because of their representations that France's agriculture has been delivered from several of the oppressions that it had laboured under. [He gives examples; and then writes about the Economists' fidelity to and admiration of their founder, François Quesnay, an admiration that he shares.]

[Smith now has about five pages of descriptions of the attitudes to agriculture in China, ancient Egypt and Indostan, and ancient Greece and Rome. In passing he returns to theme of the inefficiency of slavery as a way of getting labour. After all this:]

I have already pointed out that the largest and most important branch of any nation's commerce what is carried on between the inhabitants of the town and those of the country. The inhabitants of the town get from the country the rude product that constitutes both •the materials of their work and •the fund of their subsistence; and they pay for this rude product by sending back to the country a certain portion of it manufactured and prepared for immediate use. The trade between these two sets of people ultimately consists in the exchange of a certain quantity of rude product for a certain quantity of manufactured product. Thus, the dearer the latter the cheaper the former: whatever tends in any country to raise the price of manufactured product tends to lower the price of the rude product of the land, and thereby to discourage agriculture. The smaller the quantity of manufactured product that any given quantity of rude product can purchase, the smaller the latter's exchangeable value, and so the smaller the encouragement the landlord has to increase its quantity by improving the land or the farmer by cultivating it. Also, anything that tends to reduce the number of artificers and manufacturers in any country tends to lessen the home market—the most important of

all markets—for the land's rude product, and thereby to discourage agriculture still further.

So systems that prefer agriculture to all other employments and try to promote it by imposing restraints on manufactures and foreign trade act contrary to the very thing they aim at, indirectly discouraging the very species of industry that they mean to promote. In this they are more inconsistent than even the mercantile system. The latter, by encouraging manufactures and foreign trade more than agriculture, turns a certain portion of the society's capital away from supporting a more advantageous kind of industry towards supporting a less advantageous one. But still it really does ultimately encourage the kind of industry that it means to promote. The agricultural systems, on the other hand, really do ultimately discourage their own favourite kind of industry.

That is how every system that tries

- by special encouragements to draw **towards** a particular kind of industry a greater share of the society's capital than would naturally go to it, or
- by special restraints to force **from** a particular kind of industry some share of the capital that would otherwise be employed in it,

is actually subverting the great purpose it means to promote. It slows down instead of accelerating society's progress towards real wealth and greatness; and it lessens instead of increasing the real value of the annual product of its land and labour.

All systems of preference or of restraint being completely taken away, the obvious and simple system of natural liberty establishes itself of its own accord. Every man, as long as he does not violate the laws of justice, is left perfectly free to pursue his own interests in his own way, and to bring his industry and his capital into competition with

those of any other man or class of men. The sovereign is completely relieved of a duty that he could not try to perform without being exposed to innumerable delusions—a duty for the proper performance of which no human wisdom or knowledge could ever be sufficient. I mean the duty of superintending the industry of private people, directing it towards the employments most suitable to the interests of the society. According to the system of natural liberty, the sovereign has only three duties to attend to; three duties of great importance, indeed, but plain and intelligible to common understandings. They are the duty of:

- protecting the society from the violence and invasion of other independent societies;
- protecting, as far as possible, every member of the society from the injustice or oppression of every other member of it, i.e. of establishing an exact administration of justice; and
- erecting and maintaining certain public works and public institutions that it can never be in the interests of any individual or small number of individuals to erect and maintain. . . .

The proper performance of those duties of the sovereign involve a certain expense; and this requires a certain revenue to support it. I shall try in Book V to explain

- (1) what the necessary expenses of the sovereign or commonwealth are, and which of them ought to be defrayed by the general contribution of the whole society; and which by some group or some particular members of the society;
- (2) what the methods are by which the whole society may be made to contribute towards defraying the expenses incumbent on the whole society, and what are the principal advantages and inconveniences of each of those methods; and

(3) what reasons and causes have induced almost all modern governments to mortgage some part of this revenue, i.e. to contract debts, and what effects those

debts have had on the real wealth—the annual product of the land and labour—of the society.
So Book V will naturally be divided into three chapters.

Book V

The revenue of the sovereign or commonwealth

Chapter 1: Expenses of the sovereign or commonwealth

Part 1. The expense of defence

The sovereign's first duty, protecting the society from the violence and invasion of other independent societies, can be performed only by military force. The cost of preparing this military force in time of peace and employing it in time of war is very different in the different states of society, i.e. in the different periods of improvement.

Among nations of hunters, the lowest and rudest state of society, like the native tribes of North America, every man is a warrior as well as a hunter. When he goes to war to defend his society or get revenge for harm done to it by other societies, he maintains himself by his own labour just as when he lives at home. His society is at no sort of expense to prepare him for the field or to maintain him while he is in it. (I say 'his *society*' because for in this state of things there is no sovereign or commonwealth properly so-called.)

Among nations of shepherds, a more advanced state of society such as we find among the Tatars and Arabs, every man is in the same way a warrior. Such nations have commonly no fixed habitation, but live in tents or in covered waggons that are easily transported from place to place. The whole tribe (i.e. nation) changes its location according to the different seasons of the year as well as according to other events. When its herds and flocks have consumed the forage of one part of the country it moves to another, and from that to a third. In the dry season it comes down to the banks

of the rivers; in the wet season it withdraws to the upper country. When such a nation goes to war, the warriors will not trust their herds and flocks to the feeble defence of their old men, women and children; and their old men, women and children will not be left behind without defence and without subsistence. Also, because the whole nation is accustomed to a wandering life even in time of peace, it easily takes the field in time of war. Whether it marches as an army or moves around as a company of herdsmen, the way of life is nearly the same though the aim is very different. So they all go to war together, and everyone does as well as he or she can. Among the Tatars even the women have been known to often engage in battle. If they conquer, whatever belongs to the hostile tribe is the recompense of the victory; but if they are defeated all is lost—not only their herds and flocks but their women and children become the booty of the conqueror. Most of those who survive the battle are obliged to submit to him for the sake of immediate subsistence. The rest are usually dispersed in the desert.

The ordinary life, the ordinary exercise, of a Tatar or Arab prepares him sufficiently for war. Running, wrestling, cudgel-playing, throwing the javelin, drawing the bow, etc. are the common pastimes of those who live in the open air, and are all of them the images of war. When a Tatar or Arab actually goes to war, he is maintained by his own herds and flocks, which he carries with him in the same way as in peace. His chief or sovereign (for those nations do all have chiefs or sovereigns) is at no expense in preparing him for the field; and when he is in it the only pay he expects or requires is the chance of plunder.

An army of hunters can seldom exceed 300 men. The precarious subsistence that the chase provides could seldom allow more than that to keep together for any considerable time. An army of shepherds, on the other hand, can sometimes amount to 300,000. As long as nothing stops their progress—as long as they can go on from one district whose forage they have consumed to another that hasn't yet been eaten out—there seems to be hardly any limit to how many can march together. A nation of hunters can never be formidable to the civilised nations in their neighbourhood; a nation of shepherds can. Nothing can be more contemptible [here = 'negligible'] than an Indian war in North America; whereas nothing can be more dreadful than Tatar invasions have often been in Asia. Thucydides' judgment that both Europe and Asia could not resist the united Scythians has been verified by the experience of all ages. The inhabitants of the extensive but defenceless plains of Scythia or Tartary have been often united under the dominion of the chief of some conquering horde or clan; and the havoc and devastation of Asia have always signalised their union. The inhabitants of the inhospitable deserts of Arabia—the other large nation of shepherds—have only once been united, namely under Mahomet and his immediate successors. Their union, which owed more to religious fanaticism than to conquest, was signalised in the same way. If the hunting nations of America ever became shepherds, having them as neighbours would be much more dangerous to the European colonies than it is at present.

[Smith now writes about how agricultural nations go to war, with all the young men serving as soldiers except at times of seeding and harvest, when some have to return to the farms. This was the pattern in ancient Greece and Rome; it did not involve the whole nation in any particular war-related expense.]

In a more advanced state of society, two causes help to make it impossible for those who take the field to maintain themselves at their own expense: **(a)** the progress of manufactures, and **(b)** improvements in the art of war.

The moment an artificer. . . leaves his workshop, the sole source of his income is completely dried up. Nature does nothing for him (as it does for the farmer while he is away at war); he does everything for himself. Thus, when he takes the field in defence of the public, he must be maintained by the public. . . .

When the art of war has gradually become a very intricate and complicated science; when the outcome of a war comes to be determined not (as in the first ages of society) by a single battle but by a contest that is spun out through several campaigns each of which lasts for most of a year; it becomes necessary that the public should maintain those who serve the public in war, at least while they are employed in that service. Whatever the ordinary peacetime occupation of those who go to war, such a tedious and expensive service would be far too heavy a burden on them ·if they were not maintained by the public·. [He mentions the ancient Athenian armies' use of mercenaries, some of them foreigners, and the payment of soldiers by ancient Rome and the post-Rome feudal governments.]

The proportion of the population who can go to war is much smaller in a civilised state of society than in a rude one. In a civilised society, the soldiers are maintained entirely by the labour of those who are not soldiers; so the number of soldiers can never exceed what the civilians can maintain along with their other obligations to maintain themselves and the non-military officers of government and law. In the little agrarian states of ancient Greece, about one fifth of the population regarded themselves as soldiers, and are said sometimes to have taken the field. Among the civilised

nations of modern Europe, it is commonly reckoned that not more than the 1% of the inhabitants of any country can be employed as soldiers, without ruin to the country that pays the expense of their service. . . .

The art of war is certainly the noblest of all arts and in the progress of improvement it inevitably becomes one of the most complicated of them. [This, Smith says, means that it cannot be carried out without a great deal of training, and it won't be in the interests of individual citizens to get that training unless the government somehow steers them towards it, Thus:]

There seem to be only two ways in which the state can make any tolerable provision for the public defence.

(a) In spite of the whole bent of the interests, genius [see Glossary], and inclinations of the people, it can rigorously *enforce* the practice of military exercises, and require all the citizens of military age, or a certain number of them, to take some part in the trade of a soldier, whatever other trade or profession they have.

(b) By maintaining and employing a certain number of citizens in the constant practice of military exercises, it can make the trade of a soldier a particular trade, separate and distinct from all others.

If the state has recourse to **(a)** its military force is said to consist in a **militia**; if to the second it is said to consist in a **standing army**. The practice of military exercises is the sole or principal occupation of the soldiers of a standing army, and the maintenance or pay the state provides them is the principal and ordinary fund of their subsistence. The practice of military exercises is only the occasional occupation of the soldiers of a militia, and they get the principal and ordinary fund of their subsistence from some other occupation. In a militia, the character of the labourer, artificer, or tradesman, predominates over that of the soldier; in a standing army,

that of the soldier predominates over every other character; and this seems to constitute the essential difference between those two kinds of military force.

[Smith now begins about seven pages of military history, concerning the successes and failures of the two sorts of armies down the centuries, and their comparative contributions to political stability in different kinds of state. He does not try to connect any of this with issues about 'the wealth of nations'.]

Men of republican principles have regarded a standing army as dangerous to liberty. It certainly is so when the interests of the army's general and principal officers are not necessarily connected with the support of the constitution of the state. The standing army of Caesar destroyed the Roman republic. The standing army of Cromwell turned the 'long parliament' out of doors. But where the sovereign is himself the general, and the chief nobility and gentry of the country are the army's principal officers, the military force is under the command of men who have the greatest interest in supporting the civil authority because *they* have the greatest share of it; and in such a situation a standing army can never be dangerous to liberty. On the contrary, it may sometimes be favourable to liberty. The security it gives to the sovereign makes unnecessary the troublesome jealousy which in some modern republics seems to watch over the minutest actions, and to be always ready to disturb the peace of every citizen. If the security of the magistrate, though supported by the principal people of the country, is endangered by every popular discontent; if a small tumult can within a few hours bring about a great revolution; the government's whole authority must be employed to suppress and punish every murmur and complaint against it. On the other hand, the rudest, most groundless, and most licentious protests cannot much disturb a sovereign who

feels himself supported not only by the country's natural aristocracy but also by a well-regulated standing army. He can safely pardon or neglect them, and his sense of his own superiority naturally disposes him to do so. . . .

So the sovereign's first duty, namely to defend the society from the violence and injustice of other independent societies, grows gradually more and more expensive as the society advances in civilisation. The military force of the society, which originally cost the sovereign no expense in time of peace or in time of war, must in the progress of improvement first be maintained by him in time of war, and afterwards even in time of peace.

The change introduced into the art of war by the invention of fire-arms has increased still further the expense of •exercising and disciplining any number of soldiers in peacetime and •of employing them in time of war. Their arms and their ammunition become more expensive. . . . The cannon and the mortar are not only much more expensive than the balista or catapulta, but also much heavier; so they involve more expense not only to prepare them for battle but to carry them to it. . . . And it has become much more difficult, and consequently much more expensive, to fortify a town against the attack of artillery. . . .

In modern war, the great expense of firearms gives an obvious advantage to the nation that can best afford it; and consequently to an affluent and civilised nation over a poor and barbarous one. In ancient times, the affluent and civilised found it hard to defend themselves against the poor and barbarous nations. In modern times, the poor and barbarous find it difficult to defend themselves against the affluent and civilised. The invention of fire-arms, an invention which at first sight appears to be so pernicious, is certainly favourable to the permanency and to the extension of civilisation.

Part 2. The expense of justice

The sovereign's second duty—protecting as far as possible every member of the society from the injustice or oppression of every other member of it, i.e. establishing an exact administration of justice—requires two very different degrees of expense in the different periods of society.

Among nations of hunters, where there no property that exceeds the value of two or three days labour, there is seldom any established magistrate or any regular administration of justice. Men who have no property can harm one another only in their persons or their reputations. When one man kills, wounds, beats, or defames another, the victim suffers but the aggressor gets no benefit. It is otherwise with the injuries to property. The benefit of the person who does the injury is often equal to the loss of him who suffers it. The only passions that can prompt one man to injure another in his person or reputation are envy, malice, or resentment. But most men are seldom under the influence of those passions, and even the very worst men are so only occasionally. Also, their gratification, however agreeable it may be to certain characters, does not bring any real or permanent advantage; so in most men it is commonly restrained by prudential considerations. Men can live together in society with some tolerable degree of security even if there is no civil magistrate to protect them from the injustice of envy, malice, and resentment. But avarice and ambition in the rich, in the poor the hatred of labour and the love of present ease and enjoyment, are passions that prompt men to invade property; they are much steadier in their operation and much more universal in their influence •than those other three•. Wherever there is a great property, there is great inequality. For one very rich man, there must be at least five hundred poor, and the affluence of the few presupposes the poverty of the many.

The affluence of the rich arouses the indignation of the poor, who are often •driven by want and •prompted by envy to invade his possessions. It is only under the shelter of the civil magistrate that the owner of that valuable property, which is acquired by the labour of many years or perhaps of many successive generations, can sleep a single night in security. He is always surrounded by unknown enemies whom he can never appease (though he never provoked them), and from whose injustice he can be protected only by the powerful arm of the civil magistrate, continually held up to chastise it. Thus the acquisition of valuable and extensive property necessarily requires the establishment of civil government. Where there is no property, or at least none that exceeds the value of two or three days labour, civil government is not so necessary.

Civil government presupposes a certain subordination. But just as the needs for civil government gradually grows up with the acquisition of valuable property, so the principal causes that naturally introduce subordination gradually grow up with the growth of that valuable property. The causes or circumstances that naturally introduce subordination—i.e. that naturally and antecedent to any civil institution give some men some superiority over most of their brethren—seem to be four in number.

[Smith goes through them in more detail than we need. They are superiority in **(i)** excellence of body, mind and morality, in **(ii)** age, in **(iii)** wealth, and in **(iv)** birth. The mental side of **(i)** is more important than the physical side, but those are 'invisible qualities' and no society has let them into its rules of subordination. After some discussion of the others, he concludes:]

Birth and fortune are evidently the two circumstances that principally set one man above another. They are the two great sources of personal distinction and therefore the

principal causes that naturally establish authority and subordination among men. Among nations of shepherds, both those causes operate with their full force. [He writes about how 'in the age of shepherds' a very wealthy person with an 'illustrious family' is naturally looked up to by others, becomes a leader in war, and a judge in peace. People with lesser herds than his support his possessions because they think this helps to protect theirs. Smith sums up the situation thus:] They constitute a sort of little nobility, who feel themselves interested to defend the property and support the authority of their own little sovereign, so that he can defend their property and support their authority. Civil government, so far as it is instituted for the security of property, is really instituted for the defence of the rich against the poor, or of those who have some property against those who have none at all.

The judicial authority of such a sovereign was for a long time a source not of expense but of revenue to him. The persons who applied to him for justice were always willing to pay for it, and a petition was always accompanied by a present. And after the sovereign's authority was thoroughly established, the person found guilty had to pay a fine to the sovereign in addition to the satisfaction he had to make to the party he had harmed. He had given trouble, he had disturbed, he had broken the peace of his lord the king, and for those offences a fine was thought due. In the Tatar governments of Asia, in the governments of Europe that were founded by the German and Scythian nations who overturned the Roman empire, the administration of justice was a considerable source of revenue to the sovereign and also to all the lesser chiefs or lords who exercised, under him, jurisdiction over some tribe or clan, or over some territory or district. Eventually the sovereign and the lower chiefs found it convenient to delegate this jurisdiction to some substitute,

who was obliged to account to his principal for the profits of the jurisdiction. . . . In England the judges of the circuit in the time of Henry II were a sort of itinerant factors, sent around the country to levy certain branches of the king's revenue. In those days, the procuring of revenue seems to have been one of the principal advantages the sovereign proposed to obtain by the administration of justice.

This scheme of making the administration of justice subservient to the purposes of revenue was bound to produce gross abuses. •The person who applied for justice with a large present in his hand was likely to get something more than justice; while he who applied for it with a small one was likely to get something less. •Justice might be delayed so that this present could be repeated. •The fine for a guilty person might suggest a strong reason for finding him guilty even when he had not really been so. The ancient history of every country in Europe bears witness that such abuses were quite common.

[Smith writes at some length about the history of this matter. Then:] When the increasing expense of defending the nation against the invasion of other nations (and some other causes) made the sovereign's private estate altogether insufficient for defraying the expense of the sovereignty, it became necessary that the people should for their own security contribute towards this expense by taxes. It seems then to have been commonly stipulated that no present for the administration of justice should under any pretence be accepted by the sovereign or by his bailiffs and substitutes, the judges. It seems to have been thought that those presents could more easily be abolished than effectively regulated and ascertained. Fixed salaries were appointed for the judges, which were supposed to compensate them for the loss of whatever might have been *their* share of the former revenue from justice; just as the taxes more than compensated the

sovereign for the loss of *his*. Justice was then said to be administered *gratis*.

Justice, however, was really never administered *gratis* in any country. Lawyers and attorneys, at least, must always be paid by the parties to any law-suit; if they were not, they would perform their duty still worse than they actually perform it. In every court the fees annually paid to lawyers and attorneys amount to a much greater sum than the salaries of the judges. The fact that those salaries are paid by the crown can nowhere much diminish the necessary expense of a law-suit. But the reason the judges were prohibited from receiving my present or fee from the parties was not so much to diminish the expense as to prevent the corruption of justice.

The office of judge is in itself so very honourable that men are willing to accept it although the pay for it is very small. The lower office of justice of peace, though it involves a good deal of trouble and in most cases no pay at all, is an object of ambition to most of our country gentlemen. The. . . whole expense of the administration and execution of justice, even where it is not managed well, makes a very inconsiderable part of the whole expense of government in any civilised country.

[Smith then discusses through several pages various ways in which the administration of justice might be made to pay for itself 'without any real hazard of corruption', thus saving the government even that 'very inconsiderable' expense. He cites different attempts that have been made to do this, and estimates their success. From that he moves on to the topic of the separation of the judicial system from the rest of government.]

The separation of the judicial from the executive power seems originally to have arisen from the increasing business of the society as a result of its increasing improvement. The

administration of justice became so laborious and complicated as to require the undivided attention of the person to whom it was entrusted. Because the person entrusted with the executive power did not have leisure to attend to the decision of private causes himself, a deputy was appointed to decide them in his place. In the progress of the Roman greatness, the consul was too much occupied with the political affairs of the state to attend to the administration of justice, so a praetor was appointed to administer it for him. In the progress of the European monarchies, which were founded on the ruins of the Roman empire, the sovereigns and the great lords all came to consider the administration of justice as an office too laborious and too ignoble for them to execute themselves; so they all rid themselves of it by appointing a deputy, bailiff or judge.

When the judicial power is united to the executive power, it is hardly possible for justice not to be often sacrificed to what is vulgarly called 'politics'. The persons entrusted with the great interests of the state may, even without any corrupt views, sometimes think it necessary to sacrifice to those interests the rights of a private man. But the liberty of every individual, the sense he has of his own security, depends on the impartial administration of justice. To make every individual feel himself perfectly secure in the possession of every right that belongs to him, it is necessary that the judicial should be not only **separated from** the executive power but as much as possible **independent** of that power. The judge should not be liable to be removed from his office according to the caprice of that power. The regular payment of his salary should not depend on the good will of that power or even on its good economy.

Part 3. The expense of public works and public institutions

The third and last duty of the sovereign or commonwealth is that of erecting and maintaining public institutions and public works which, though they may be in the highest degree advantageous to a great society, . . . no individual or small number of individuals could be expected to erect or maintain. Performing this duty also requires different levels of expense in the different periods of society. After the two kinds I have already mentioned—institutions and works necessary for the defence of the society and the administration of justice—the other public works and institutions are chiefly for **(a)** facilitating the commerce of the society, **(b)** promoting education of the youth, and **(c)** promoting the instruction of people of all ages. I shall discuss how the expense of those sorts of public works and institutions may be most properly defrayed in three sections.

Section (a): Public works and institutions for facilitating the commerce of the society, starting with ones that are necessary for facilitating commerce in general. . .

. . . The expense of making and maintaining the public roads of a country obviously must increase with the annual product of the country's land and labour, i.e. with the quantity and weight of the goods it is necessary to carry on those roads. The strength of a bridge must be suited to the number and weight of the carriages likely to pass over it; the depth and the supply of water for a navigable canal to the number and tonnage of the barges likely to carry goods on it; the extent of a harbour to the number of ships likely to take shelter in it.

It does not seem necessary that the expense of those public works should be defrayed from the so-called 'public revenue' the collection and application of which are in most

countries assigned to the executive power. Most of such public works can easily be managed so that they provide enough revenue to defray their own expense without bringing any burden on the general revenue of the society.

A highway, a bridge, a navigable canal can usually be made and maintained by a small toll on the carriages that use them; a harbour by a moderate port-duty on the tonnage of the ships that load or unload in it. (Two other institutions for facilitating commerce in many countries defray their own expense *and* provide a revenue for the sovereign—the coinage and the post-office.) When the carriages that pass over a highway or a bridge and the barges that sail on a navigable canal pay toll in proportion to their weight, they are paying for the maintenance of those public works exactly in proportion to the wear and tear they inflict on them. It seems hardly possible to invent a fairer way of maintaining such works. This tax or toll. . . .is finally [see Glossary] paid by the consumer, to whom it must always be charged in the price of the goods; but. . . .the price is not •raised by the toll as much as it is •lowered by the cheapness of the carriage. . . . When the toll on carriages of luxury, coaches, post-chaises etc. is made somewhat higher in proportion to their weight than on carriages of necessary use such as carts, waggons etc. the indolence and vanity of the rich is made to contribute in a very easy manner to the relief of the poor. . . .

[Smith condemns the building of infrastructure that the relevant commerce can't pay for, to satisfy the vanity or convenience of some powerful person. He goes on to report that in some countries the tolls on canals are owned by private individuals who are thereby motivated to keep the canals in good order, which they might not be if control were in the hands of 'commissioners'. He gives a striking example: The canal of Languedoc cost public revenue about £900,000, and it was found that the best method of keeping

it in good shape 'was to make a present of the tolls to Riquet, the engineer who planned and conducted the work'.]

The tolls for the maintenance of a high road cannot safely be made the property of private persons. A high-road, though entirely neglected, does not become altogether impassable as a canal does. So the proprietors of the tolls on a high-road might entirely neglect the repair of the road while still levying nearly the same tolls. It is proper, therefore, that the tolls for the maintenance of such a work should be put under the management of commissioners or trustees.

The abuses that the trustees have committed in the management of those tolls in Great Britain have been justly complained of. [He goes into details, saying that this system is very new and there hasn't yet been enough time to establish 'proper courts of inspection and account' to ensure that tolls are not too high and that they are genuinely spent on road-maintenance. From this he moves on to the idea that road-tolls might become a considerable source of revenue to help meet 'the exigencies of the state'. He has three objections to this:]

First, If the tolls levied at turnpikes were ever considered as one of the resources for meeting the exigencies of the state, they would certainly be increased as those exigencies were supposed to require. . . . The upshot would be that the turnpike tolls, instead of facilitating the country's inland commerce, would soon become a great burden on it. The expense of transporting all heavy goods would soon be so much increased, and the market for them thus so much narrowed, that their production would be considerably discouraged and the most important branches of the country's domestic industry annihilated altogether.

Secondly, A tax on carriages in proportion to their weight, though fair when the tax is applied to the sole purpose of repairing the roads, is very unfair when applied to any other

purpose or to supply the common exigencies of the state. . . . The turnpike toll raises the price of goods in proportion to their weight and not to their value, so it is chiefly paid by the consumers of coarse and bulky commodities, not by those of precious and light ones. Thus, any exigency of the state that this tax might be intended to meet would be chiefly met at the expense of the poor, not of the rich. . . .

Thirdly, If government at any time neglected the maintenance of the high-roads, it would be even harder than it is now to *compel* the proper application of any part of the turnpike tolls. . . .

[Smith now devotes about three pages to describing how these things are managed in some other countries, especially France and China. He has much to say about how the vanity of rulers has an interest in magnificent high-roads but not in efficient cross-roads, and how this shows in the roads of France. Things seem better in China, he says, but it is hard to be sure because so many of the reports from there are by 'weak and wondering travellers or by stupid and lying missionaries'.]

Even public works that cannot provide any revenue for maintaining themselves, but the convenience of which is nearly confined to some particular place or district, are always better maintained by •a local or provincial revenue under the management of a local and provincial administration than by •the general revenue of the state that must always be managed by the executive power. If the streets of London were to be lighted and paved at the expense of the treasury, is it likely that they would be so well—or even so inexpensively—lighted and paved as they are at present? Also, it would be unfair to pay for this by a tax on all the inhabitants of the kingdom, most of whom derive no benefit from the lighting and paving of the streets of London. . . .

. . . and then ones that are necessary for facilitating particular branches of commerce

To facilitate some particular branches of commerce particular institutions are necessary, and these involve their own expenses.

Some branches of commerce that are carried on with barbarous and uncivilised nations require special protection. The goods of the merchants who trade to the western coast of Africa can be defended from the barbarous natives only if the place where they are deposited is somewhat fortified. The disorders in the government of Indostan were supposed to render a similar precaution necessary, even among that mild and gentle people; and it was under the pretence of securing persons and property from violence that the English and French East India companies were allowed to erect the first forts they had in that country. Among other nations whose governments will not allow strangers to have forts within their territory, it may be necessary to maintain an ambassador. . . .who can •settle disagreements among his own countrymen and •interfere in their disputes with the natives with more authority, and provide them a more powerful protection, than they could expect from any private man. [He goes on to say that the practice of having permanent representatives in foreign countries is only about 300 years old, and has grown along with the growth of international commerce.]

[Smith argues that it is reasonable for the costs of the protection of a country's goods when they are sent in trade to another country to be met by customs that are handled by the executive power. However:] In most of the commercial states of Europe particular companies of merchants have had the skill to persuade the legislature to entrust to them •the performance of this part of the duty of the sovereign and with •all the powers necessarily connected with it.

These companies, though they may have been useful for the first introduction of some branches of commerce by making at their own expense an experiment that the state might not think it prudent to make, have *all* in the long run proved to be burdensome or useless, and have mismanaged or confined the trade.

[Smith devotes about 20 exhaustive and exhausting pages to details about this. The account distinguishes three kinds of such companies: joint-stock companies, regulated companies, and private copartneries. Their various pluses and minuses are sorted out, and they are traced through their histories in various countries, the most distressing part of the tale being the conduct of the East India Company, despite one small thing it did 'during a momentary fit of good conduct'. Here are two short excerpts:]

... With the •right of possessing forts and garrisons in distant and barbarous countries is necessarily connected the •right of making peace and war in those countries. The joint-stock companies that have had the one right have constantly exercised the other, and have often had it expressly conferred on them. How unjustly, capriciously, and cruelly they have commonly exercised it is too well known from recent experience. . . .

... No two characters seem more inconsistent than those of trader and sovereign. If the trading spirit of the English East India company makes them bad sovereigns, the spirit of sovereignty seems to have made them equally bad traders. While they were only traders they managed their trade successfully and could pay from their profits a moderate dividend to the proprietors of their stock. Since they became sovereigns, with a revenue that is said to have originally been more than £3,000,000, they have had to beg for the ordinary assistance of government in order to avoid immediate bankruptcy. In their former situation, their servants

in India regarded themselves as the clerks of merchants; in their present situation those servants regard themselves as the ministers of sovereigns. . . .

Section (b): The expense of the institution for the education of youth.

[For the 'b' of this section, see page 206.] The institutions for the education of the youth can also provide a revenue sufficient for defraying their own expense. The fee that the scholar pays to the master naturally constitutes a revenue of this kind.

Even when the master's reward does not arise entirely from this natural revenue, it still need not be derived from the general revenue of the society. . . . Through most of Europe the endowment of schools and colleges makes little or no charge on the general revenue, and arises chiefly from

- some local or provincial revenue,
- the rent of some landed estate, or
- the interest of some sum of money, allotted and put under the management of trustees for this purpose by the sovereign himself or by some private donor.

Have those public endowments generally helped to promote the goal of their institution? Have they helped to encourage the diligence and improve the abilities of the teachers? Have they directed the course of education towards objects more useful—to the individual and to the public—than those to which it would naturally have gone of its own accord? It should not be hard to give at least a probable answer to each of those questions.

In every profession the exertion of most of those who exercise it is proportional to their *need* to make that exertion. This need is greatest for those to whom the income of their profession is the only source from which they expect their fortune or even their ordinary income and subsistence.

To get this fortune, or even to get this subsistence, they must in the course of a year do a certain amount of work of a known value; and where the competition is free the rivalry of competitors who are all trying to jostle one another out of employment forces every man to try to carry out his work with a certain degree of exactness. . . .

The endowments of schools and colleges have inevitably diminished somewhat the need for application in the teachers. Insofar as their subsistence arises from their salaries, it obviously comes from a fund that is entirely independent of their success and reputation in their particular professions.

In some universities the salary is only a part (often a small one) of the teacher's income, most of which arises from the fees of his pupils; but even in this case the need for application is not entirely taken away. Reputation in his profession is still of some importance to the teachers, and he still has some dependence on the affection, gratitude, and favourable report of those who have had instruction from him; and the best way for him to attract these favourable sentiments is to deserve them by the abilities and diligence with which he discharges every part of his duty.

In other universities, the teacher is prohibited from receiving any fee from his pupils, and his salary is the only income he derives from his office. In this situation his interests are as directly opposed to his duty as they could possibly be. It is the interest of every man to live as much at his ease as he can; and if his rewards are to be precisely the same whether or not he performs some laborious duty, it is certainly his interest—at least as 'interest' is commonly understood—either to neglect this duty altogether or, if he is subject to some authority that will not allow that, to perform it in as careless and slovenly a manner as that authority will permit. If he is naturally active and a lover of labour, it is his interest to employ that activity in any way from which

he can derive some advantage rather than in doing his duty, from which he can derive none.

If the authority to which he is subject resides in the college or university of which he is a member, and in which most of the other members are also persons who are or ought to be teachers, they are likely to make a common cause, to be very indulgent to one another, with every man consenting to his neighbour's neglecting his duty provided that *he* himself is allowed to neglect his own. For these many years most of the public professors in the university of Oxford have given up even pretending to teach.

If the authority to which he is subject resides not in the body of which he is a member but in some other persons—bishop, provincial governor, minister of state—he will probably not be allowed to neglect his duty altogether. But all that such superiors can force him to do is to give a certain number of lectures in the week, or in the year; and what those lectures are like must still depend on the teacher's diligence, which is likely to be proportioned to the motives he has for exerting it. [Smith goes on to say that quality-control from the outside is apt to be very poor: the officials exercising it are often slack, lazy, ignorant about the materials being taught, and about what happens in the classroom. On this topic he sums up:] Anyone who has looked for long at the administration of a French university must have noticed the effects that naturally result from an arbitrary and extraneous jurisdiction of this kind.

[Smith writes at some length about ways in which attendance at some college or university can be compulsory for some students, e.g. ones who want 'the privileges of graduates in arts, in law, medicine, and divinity', or ones relying on some charity. Such compulsoriness reduces the pressure on teachers to do their work well.]

If the teacher happens to be a man of sense, it must

be unpleasant for him to be aware, while lecturing to his students, that he is speaking or reading nonsense or near-nonsense. It must also be unpleasant for him to observe that most of his students desert his lectures, or attend them with clear signs of neglect, contempt, and derision. So if he is obliged to give a certain number of lectures, these motives might dispose him to take some pains to give tolerably good ones. But there are devices he can use to blunt the edge of those incitements to diligence. Instead of explaining to his pupils the science in which he proposes to instruct them, the teacher may •read some book on it written in a foreign and dead language, and interpret it to them into their own language; or—still more easily—•make them interpret it to him, now and then making a remark on it and flattering himself that he is giving a lecture. The slightest degree of knowledge and application will enable him to do this, without exposing himself to contempt or derision by saying anything really ridiculous. And the discipline of the college may enable him to force all his pupils to attend his sham lectures regularly, and to maintain decent and respectful behaviour throughout each performance.

The discipline of colleges and universities is in general designed not for the benefit of the students but for the ease of the masters. [Smith enlarges on this at some length, and then moves on through a long discussion of which the following are some of the main points. •There should be no need for compulsion in the education of pupils over the age of about 13; if the teaching is decently done, the young will be eager to absorb it. •Teaching is better outside public institutions, e.g. in private schools for fencing, dancing, riding. •In England public schools are 'less corrupted' than universities, partly because there nothing forcing any students to attend a particular school.]

[Smith now embarks on several pages on the history of

education in Christian Europe, especially the place in it of theology and the Latin, Greek, and Hebrew languages. This then flows on into a history of ancient Greek philosophy, with its triad physics/ethics/logic, and of the further development of this in succeeding centuries. His summing up on this is memorable:] The alterations that the universities of Europe thus introduced into the ancient course of philosophy were meant for the education of ecclesiastics, making it a better introduction to the study of theology. But the additional quantity of subtlety and sophistry, the casuistry and ascetic morality that those alterations introduced into it, certainly did not make it better for the education of gentlemen or men of the world, or more likely to improve the understanding or to mend the heart.

·WAITING FOR THE YOUNG TO GROW UP·

Though the public schools and universities of Europe were originally intended only for the education of churchmen, and though they were not always very diligent in instructing their pupils even in the sciences that were supposed necessary for that profession, yet they gradually drew to themselves the education of almost all other people, particularly of almost all gentlemen and men of fortune. No better method, it seems, could be found for spending with any advantage the long interval between infancy and the period of life when men begin to apply themselves in good earnest to the real business of the world, the business that will employ them for the rest of their days. Most of what is taught in schools and universities, however, does not seem to be the most proper preparation for that business.

In England it is increasingly the custom to send young people to travel in foreign countries immediately on their leaving school, without sending them to any university. This is said:

Our young people generally return home much improved by their travels. A young man who goes abroad at 17 or 18 and returns home at 21 returns three or four years older than he was when he went abroad; and at that age it is hard not to improve a good deal in three or four years. In the course of his travels he generally acquires some knowledge of one or two foreign languages. . .

. . . a knowledge, however, that is seldom sufficient to enable him to speak or write them properly. In other ways he commonly returns home more conceited, more unprincipled, more dissipated, and more incapable of serious application to study or to business than he could have become in such a short time if he had stayed at home. By travelling when so young, by spending in frivolous dissipation the most precious years of his life at a distance from the inspection and control of his parents and relations, every useful habit that the earlier parts of his education might have tended to form in him is almost inevitably weakened or effaced instead of being riveted and confirmed. Nothing but the discredit that the universities are allowing themselves to fall into could ever have brought into repute such an absurd practice as that of travelling at this early period of life. By sending his son abroad, a father spares himself for a while time from the disagreeable sight of a son unemployed, neglected, and going to ruin before his eyes—i.e. a son at an English university.

Such have been the effects of some of the modern institutions for education. Different plans and different institutions for education seem to have taken place in other ages and nations. [This leads into several pages of description of educational methods in ancient Greece and Rome. One episode in this connects with what Smith has been saying about the economic basis for the low quality of English universities:]

Masters were found, it seems, for instructing the better sort of people among those nations in every art and science that the circumstances of their society made it necessary or convenient for them to be instructed in. The demand for such instruction produced what it always produces, namely the talent for giving it; and the effort at improvement that unrestrained competition never fails to arouse seems to have brought that talent to a very high degree of perfection.

In the attention the ancient philosophers aroused, in the domination they acquired over their hearers' opinions and principles, in their ability to give a certain tone and character to the conduct and conversation of those hearers, they appear to have been much superior to any modern teachers. In modern times, the diligence of public teachers is more or less corrupted by the circumstances which make them more or less independent of their success and reputation in their particular professions. And their salaries put any private teacher who would like to compete with them in the same situation as a merchant who tries to trade without a bounty [see Glossary] in competition with those who trade with a considerable one. If he sells his goods at nearly the same price, he cannot have the same profit; and poverty and beggary will inevitably be his lot, if not bankruptcy and ruin. If he tries to sell them much dearer, he is likely to have so few customers that his circumstances will not be much mended. . . . The endowments of schools and colleges have not only corrupted the diligence of public teachers but have made it almost impossible to have any good private ones.

There are no public institutions for the education of women, so there is nothing useless, absurd, or fantastical in the common course of their education. They are taught what their parents or guardians judge it necessary or useful for them to learn, and they are taught nothing else. Every part of a woman's education tends evidently to some useful

purpose:

- to improve the natural attractions of her person,
- to form her mind to reserve, modesty, chastity, and economy,
- to make her likely to become the mistress of a family, and to behave properly when she does.

In every part of her life a woman feels some convenience or advantage from every part of her education. It seldom happens that a man, in *any* part of his life, derives *any* convenience or advantage from some of the most laborious and troublesome parts of his education.

You may ask: 'Then ought the public to give no attention to the education of the people? And if it ought to give some, what different parts of education ought it to attend to in the different orders of the people? and how ought it to attend to them?'

In some cases, the state of society necessarily places most individuals in situations that naturally form in them, without any attention of government, almost all the abilities and virtues that the state of society requires, and perhaps all it can allow. In other cases, the state of the society does not place most individuals in such situations; and some attention of government is needed to prevent the almost entire corruption and degeneracy of the great body of the people.

·THE EDUCATION OF THE LABOURING POOR·

In the progress of the division of labour, the employment of most of those who live by labour comes to be confined to a few very simple operations, often only one or two. Now, the understandings of most men are formed by their ordinary employments. The man whose whole life is spent in performing a few simple operations—with effects that are always nearly the same—has no occasion to exert his

understanding or to exercise his invention in devising ways to remove difficulties that never occur. So he naturally loses the habit of such exertion, and generally becomes as stupid and ignorant as a human creature can possibly become. The torpor of his mind makes him incapable of

- enjoying or taking part in any rational conversation,
- conceiving any generous, noble, or tender sentiment, or, therefore,
- forming any just judgment concerning many even of the ordinary duties of private life.

Of the great and extensive interests of his country he is altogether incapable of judging; and unless particular trouble has been taken to make him otherwise he is equally incapable of defending his country in war. The uniformity of his stationary life naturally corrupts the courage of his mind, and makes him regard with abhorrence the irregular, uncertain, and adventurous life of a soldier. It corrupts even the activity of his body, and makes him incapable of exerting his strength with vigour and perseverance in any employment except the one to which he has been bred. Thus, his dexterity at his own particular trade seems to be acquired at the expense of his intellectual, social, and martial virtues. But in every improved and civilised society this *is* the state into which the labouring poor—i.e. the great body of the people—must necessarily fall unless government works to prevent it.

It is otherwise in societies of hunters, of shepherds, and even of husbandmen in the rude state of husbandry before the improvement of manufactures and the extension of foreign commerce. In such societies, each man's varied occupations oblige him to exert his capacity and to invent ways of solving problems that continually occur. Invention is kept alive, and the mind is not allowed to fall into the drowsy stupidity that seems to benumb the understanding

of most of the lower ranks of people in a civilised society. In those 'barbarous' societies every man is a warrior; every man is also in some measure a statesman, and can form a tolerable judgment concerning the interests of his society and the conduct of those who govern it; so almost every man can see well enough how far their chiefs are good judges in peace or good leaders in war. No man in such a society can acquire the improved and refined understanding that a few men sometimes have in a more civilised state. . . . Every man has a •considerable degree of knowledge, ingenuity, and invention but hardly any man has a •great degree of these qualities. Still, the degree that is commonly possessed is generally sufficient for conducting the whole simple business of the society. In a civilised state, on the other hand, though there is little variety in the occupations of most individuals there is an almost infinite variety in those of the whole society. These varied occupations present an almost infinite variety of topics of contemplation for those few who, having no particular occupation of their own, have leisure and inclination to examine the occupations of other people. Such contemplation exercises their minds in endless comparisons and combinations, and makes their understandings extraordinarily acute and comprehensive. But unless those few happen to be placed in some very particular situations, their great abilities—though honourable to themselves—may contribute little to the good government or happiness of their society. Despite the great abilities of those few, all the nobler parts of the human character may be to a large extent obliterated and extinguished in the great body of the people.

In a civilised and commercial society the education of the common people may require more public attention than the education of people of some rank and fortune. I base this on three facts about people of some rank and fortune. (i) They are generally about 19 years of age before they enter

on the particular business, profession, or trade by which they propose to distinguish themselves in the world. By then they have had plenty of time to acquire, or at least to fit themselves to acquire, every accomplishment that can •recommend them to the public esteem or •make them worthy of it; and their parents or guardians are generally anxious enough for this to happen to be willing enough to lay out the expense necessary for it. If they are not always properly educated, it is seldom from lack of expense laid out on their education but from the improper application of that expense. It is seldom from the lack of masters but from the negligence and incapacity of the masters who can be had and the impossibility (in the present state of things) of finding any better. (ii) The employments in which they spend most of their lives are not simple and uniform as those of the common people are. They are almost all extremely complicated, and such as exercise the head more than the hands. The understandings of those who are engaged in such employments can seldom grow slack through lack of exercise. (iii) Their employments are seldom such as harass them from morning to night. They generally have a good deal of spare time during which they can perfect themselves in every branch of useful or ornamental knowledge that attracts them.

It is otherwise with the common people. (i) Their parents can barely afford to maintain them, even in infancy. As soon as they are able to work they must follow some trade by which they can earn their subsistence. (ii) That trade is generally so simple and uniform that it gives little exercise to the understanding. (iii) Their labour is so constant and so severe that it leaves them little time and less inclination to think about any thing else.

But. . . the most essential parts of education—to read, write, and account—can be acquired so early in life that

even those who are to be bred to the lowest occupations have time to acquire them before they can be employed in those occupations. For a very small expense the public can facilitate, encourage and even impose on almost the whole body of the people the necessity of acquiring those most essential parts of education.

The public can **facilitate** this acquisition by establishing in every parish or district a little school where children can be taught for a reward so moderate that even a common labourer can afford it. The master may be partly paid by the public (but not wholly or even principally paid by it, because then he would soon learn to neglect his business). [This is done in Scotland, Smith reports, and to a lesser extent in England.] If in those little schools the books used in teaching children to read were a little more instructive than they commonly are; and if, instead of a smattering of Latin that the children of the common people are sometimes taught there, uselessly, they were instructed in the elementary parts of geometry and mechanics; the literary education [Smith's phrase] of this rank of people would perhaps be as complete as it can be. There is hardly any common trade that does not provide some opportunities for applying the principles of geometry and mechanics, and that would not therefore gradually exercise and improve the common people in those principles, which are the necessary introduction to the most abstract as well as to the most useful sciences.

The public can **encourage** the acquisition of those most essential parts of education by giving small premiums and little badges of distinction to the children of the common people who excel in them.

The public can **impose on** almost the whole body of the people the necessity of acquiring the most essential parts of education by obliging every man to undergo an examination in them before he can obtain the freedom in any corporation,

or be allowed to set up any trade in a village or town corporate.

[Smith writes about how ancient Greece and Rome dealt with education, especially military education. This leads into a discussion—largely repeating the one begun on page 202—of militias versus standing armies. Embedded in this is a striking declaration about a state's interest in its citizens' being brave; and this whole matter of the education of the young ends with a declaration about a state's interest in its citizens' not being stupid.]

. . . .A coward, a man incapable of defending or revenging himself, evidently lacks one of the most essential parts of the character of a man. He is as much mutilated and deformed in his mind as a legless man is in his body. He is evidently the more wretched and miserable of the two because happiness and misery must necessarily depend more on whether the mind is healthful or unhealthful, mutilated or whole, than on whether the body is. Even if the martial spirit of the people were of no use towards the defence of the society, the government would still need to give serious attention to preventing the mental mutilation, deformity, and wretchedness that cowardice involves from spreading through the great body of the people; just as it would need to give serious attention to preventing leprosy or any other loathsome and offensive disease from spreading among them, even if it were neither mortal nor dangerous. . . .

The same thing may be said of the gross ignorance and stupidity that seem so often to benumb the understandings of all the lower ranks of people in a civilised society. A man without the proper use of the intellectual faculties of a man is, if possible, more contemptible than even a coward, and seems to be mutilated and deformed in a still more essential part of the character of human nature. Even if the state derived no advantage from the instruction of the

lower ranks of people, it should still attend to their not being altogether uninstructed. In fact, though, the state gets considerable advantage from their instruction. The more they are instructed, the less liable they are to the delusions of fanaticism and superstition, which often cause the most dreadful disorders among ignorant nations. Also, an instructed and intelligent people are always more decent and orderly than an ignorant and stupid one. They feel themselves, each individually, more respectable and more likely to have the respect of their lawful superiors, which makes them more disposed to respect those superiors. . . . In free countries, where the safety of government depends very much on the the people's favourable judgment of its conduct, it must surely be of the highest importance that they should not be disposed to judge rashly or capriciously concerning it.

Section (c): The expense of the institutions for the instruction of people of all ages.

[For the 'c' of this section, see page 206.] The institutions for the instruction of people of all ages are chiefly those for religious instruction. The aim of this kind of instruction is not so much to make the people good citizens in this world as to prepare them for a better world in the life to come. The teachers of the doctrine that contains this instruction may—like other teachers—depend for their subsistence entirely •on the voluntary contributions of their hearers or •on some other fund to which the law of their country entitles them—e.g. a landed estate, a tithe or land tax, an established salary or stipend. Their zeal and industry are likely to be much greater in the former situation than in the latter. That is why the teachers of a new religion have always had an advantage in attacking established systems whose clergy, resting on their benefices [see Glossary], had •neglected to keep up the fervour of faith and devotion in the great body

of the people and •become incapable of making any vigorous exertion in defence even of their own establishment. The clergy of an established and well endowed religion often become men of learning and elegance, with all the virtues that can recommend them to the esteem of gentlemen; but they are apt gradually to lose the good and bad qualities that gave them authority and influence with the lower ranks of people and had perhaps been the causes of the original success and establishment of their religion. Such a clergy, when attacked by a set of popular and bold (though perhaps stupid and ignorant) fanatics, feel as defenceless as were the lazy, effeminate, well-fed nations of southern Asia when they were invaded by the active, hardy, and hungry Tatars of the north. In such an emergency they commonly have to call on the civil magistrate [see Glossary] to persecute, destroy, or drive out their adversaries as disturbers of the public peace. That is how the Roman catholic clergy called on the civil magistrate to persecute the protestants, and the church of England to persecute the dissenters; and how in general every religious sect that has for a century or two enjoyed the security of a legal establishment has found itself incapable of making any vigorous defence against any new sect that has chosen to attack its doctrine or discipline. On such occasions

- the established church sometimes has the advantage in learning and good writing, but
- its adversaries have the advantage in the arts of popularity, the arts of gaining proselytes.

In England those arts have been long neglected by the well-endowed clergy of the established church, and are now cultivated chiefly by the dissenters and the methodists. However, independent provisions have in many places been made for dissenting teachers—by voluntary subscriptions, trust rights, and other evasions of the law—and this seems to

have greatly lessened the zeal and activity of those teachers. Many of them have become very learned, ingenious, and respectable men; but they have in general ceased to be very popular preachers. The methodists, without half the learning of the dissenters, are much more in vogue.

In the church of Rome the industry and zeal of the lower clergy are kept more alive by self-interest than perhaps in any established protestant church. Many of the parochial clergy derive a considerable part of their subsistence from the voluntary gifts of the people—a source of income that confession gives them many opportunities of improving. The mendicant orders derive their whole subsistence from such gifts; it is with them as with the hussars and light infantry of some armies—no plunder, no pay. . . . So they have to use every art that can animate the devotion of the common people. Machiavelli said that the establishment of the two great mendicant orders, the Dominicans and the Franciscans, revived the languishing faith and devotion of the catholic church. In Roman catholic countries the spirit of devotion is supported entirely by the monks and the poorer parochial clergy.

[Smith now embarks on about 20 pages of •discussion of ways in which governments have interfered in religion, especially by having established churches; of •the reasons why religions start as morally strict and then gradually become morally 'loose'; of •the advantages and risks to a government siding with one religious sect; •of the history of the rise and fall of the worldly power of the Roman catholic church; and of •the causes of the reformation. None of this really fits into the topic of this book. The present version will confine itself to presenting a few memorable episodes.]

. . . .Times of violent religious controversy have generally been times of equally violent political faction. On such occasions each political party has seen fit to ally itself with

one of the contending religious sects, which could be done only by adopting or at least favouring the tenets of that sect. The sect that had the good fortune to be allied with the conquering party necessarily shared in the victory of its ally, by whose favour and protection it was able in some degree to silence and subdue all its adversaries. . . . The clergy of this particular sect became powerful enough to overawe the leaders of their own party, and to oblige the civil magistrate to respect their opinions and inclinations. Their first demand was generally that he should silence and subdue all their adversaries; and their second that he should bestow an independent provision on themselves. As they had generally contributed a good deal to the victory, it seemed not unreasonable that they should have some share in the spoils. . . .

If politics had never called in the aid of religion, if the conquering party had never adopted the tenets of one sect more than those of another, it would probably have dealt impartially with all the sects, allowing every man to choose his own priest and his own religion. There would then have been a great multitude of religious sects, with almost every congregation having a little sect by itself. . . . This would have tamed—made less harmful—religious zeal. The teachers of each sect, seeing themselves surrounded by more adversaries than friends, would have to learn the candour and moderation that are so seldom found among the teachers of the great state-supported sects, who see nothing around them but followers, disciples, and humble admirers. . . .

. . . .In every civilised society—every society where the distinction of ranks has been completely established—there have been always two systems of morality current at the same time: one may be called 'strict' or 'austere', the other 'liberal' or (if you will) 'loose'. The former is generally admired and revered by the common people; the latter is commonly

more esteemed and adopted by what the so-called people of fashion. The main difference between these two systems lies in their attitudes to the vices of levity, vices that are apt to arise from great prosperity and from the excess of gaiety and good humour. . . . [Smith goes on to say that common people favour the strict morality because they know that following the liberal or loose one would ruin them.]

. . . .The followers of Luther, together with what is called the church of England, preserved something of the episcopal government, established ranks among the clergy, gave the sovereign the disposal of all the bishoprics and other benefices within his dominions, thereby making him the real head of the church. . . . This system of church government was favourable to peace and good order, and to submission to the civil sovereign; so it has never caused any tumult or civil commotion in any country where it is established. The church of England has always valued herself, with good reason, on the unexceptionable loyalty of her principles. Under such a government, the clergy naturally try to win favour from the sovereign, the court, and the country's nobility and gentry. They pay court to those patrons, sometimes by the vilest flattery and obsequiousness but often also

- by cultivating all the arts that are most likely to gain them the esteem of people of rank and fortune;
- by their knowledge in all the branches of useful and ornamental learning,
- by the decent liberality of their manners,
- by the social good humour of their conversation, and
- by their avowed contempt for the absurd and hypocritical austerities that fanatics inculcate and pretend to practise. . . .

Such a clergy, however, while courting the higher ranks of life are apt to neglect the means of maintaining their influence and authority with the lower. They are listened

to, esteemed, and respected by their superiors; but when they defend their sober and moderate doctrines against the most ignorant fanatic who chooses to attack them, they often cannot convince their inferiors.

Nothing but exemplary morals can give dignity to a man of small fortune. The vices of levity and vanity make him ridiculous, as well as being almost as ruinous to him as they are to the common people. In his own conduct, therefore, he is obliged to follow the system of morals that the common people respect the most. He gains their esteem and affection by the plan of life that his own interest and situation would lead him to follow. The common people look on him with the kindness with which we naturally regard someone who approaches somewhat to our own condition but who we think ought to be in a higher. Their kindness naturally provokes his kindness. . . . That is why the presbyterian clergy have more influence over the minds of the common people than the clergy of any other established church; and why it is only in presbyterian countries that we ever find the common people converted—completely without persecution and almost to a man—to the established church.

Voltaire remarks that father Porée, a jesuit of no great eminence in the republic of letters, was the only professor they had ever had in France whose works were worth reading. It must seem strange that in a country that has produced so many eminent men of letters hardly any of them has been a professor in a university. The famous Gassendi was at first a professor in the university of Aix. On the first dawning of his genius it was put to him that by going into the church he could easily find a quieter and more comfortable subsistence, as well as a better situation for pursuing his studies; and he immediately followed the advice. Voltaire's observation may also be applied, I believe, to all the other Roman Catholic countries. We rarely find in any of them an eminent man

of letters who is a professor in a university, except perhaps in law and medicine, professions from which the church is not so likely to draw them. After the church of Rome, that of England is by far the richest and best endowed church in Christendom. In England, accordingly, the church is continually draining the universities of all their best and ablest members. . . . Whereas in Geneva, the protestant cantons of Switzerland, the protestant countries of Germany, and in Holland, Scotland, Sweden, and Denmark the greater part of the most eminent men of letters those countries have produced have been professors in universities. In those countries, the universities are continually draining the church of all its most eminent men of letters.

. . . It may be laid down as a certain maxim that other things being equal, the richer the church is, the poorer must be either the sovereign or the people; and either way, the less able must the state be to defend itself. In the protestant cantons of Switzerland the revenue that formerly belonged to the Roman catholic church—the tithes and church lands—has been found to be sufficient to provide competent salaries for the established clergy *and* to defray, with little or no addition, all the other expenses of the state. . . . The most affluent church in Christendom does not maintain better in the great body of the people the uniformity of faith, the fervour of devotion, the spirit of order, regularity, and austere morals, than the poorly endowed church of Scotland. All the good effects, both civil and religious, that an established church can be supposed to produce are produced by it as completely as by any other. Most of the protestant churches of Switzerland, which are not better endowed than the church of Scotland, produce those effects in a still higher degree. . . .

The proper performance of every service seems to require that its pay or recompense should be as exactly as possible

proportioned to the nature of the service. If any service is much underpaid, it is apt to suffer by the meanness and incapacity of most of those who are employed in it. If it is much overpaid, it is apt to suffer still more by their negligence and idleness. A man with a large income, whatever his profession, thinks he ought to live like other men with large incomes, spending much of his time in festivity, vanity, and dissipation. But in a clergyman this way of life not only •consumes the time that ought to be employed in the duties of his function, but in the eyes of the common people •destroys almost entirely the sanctity of character that he needs if he is to perform those duties with proper weight and authority.

Part 4. The expense of supporting the dignity of the sovereign

In addition to the expenses necessary for enabling the sovereign to perform his several duties, a certain expense is required for the support of his dignity. This expense varies with societies' different states of improvement and with the different forms of government.

In an affluent and improved society where all ranks of people spend increasingly freely on their houses, their furniture, their tables, their dress, and their equipage, the sovereign can hardly be expected to hold out against the fashion. His dignity seems to require that he should also spend more freely on those articles.

Just as a monarch is, in point of dignity, raised above his subjects more than the chief magistrate of any republic is ever supposed to be above *his* fellow-citizens, so a greater expense is necessary for supporting that higher dignity. We naturally expect more splendour in the court of a king than in the mansion-house of a doge or burgomaster.

Conclusion

The expenses of **defending the society** and **supporting the dignity of the chief magistrate** are both laid out for the general benefit of the whole society. So it is reasonable that they should be defrayed by the general contribution of the whole society, all the members contributing, as nearly as possible, in proportion to their respective abilities.

The expense of the **administration of justice** may also be considered as laid out for the benefit of the whole society, so there is no impropriety in its being defrayed by the general contribution of the whole society. But the persons who give rise to this expense are those who by their bad behaviour make it necessary to seek redress or protection from the courts of justice; and the persons most immediately benefited by this expense are those whose rights are restored or maintained by the courts of justice. So the expense of the administration of justice may properly be defrayed by the fees of court, extracting contributions from either or both of those two sets of persons, depending on the circumstances. It is not necessary to resort to the general contribution of the whole society except for the conviction of criminals who have no means to pay those fees.

The **local or provincial expenses** for such things as the police of a particular town or district ought to be defrayed by a local or provincial revenue and not be a burden on the general revenue of the society. It is wrong that the whole society should contribute towards an expense the benefit of which is confined to a part of the society.

The expense of **maintaining good roads and communications** is no doubt beneficial to the whole society, and may therefore, without injustice, be defrayed by the general contributions of the whole society. Still, this expense is most immediately and directly beneficial to •those who travel

or carry goods and •those who consume such goods. The turnpike tolls in England, and their like in other countries, lay it all on those two sets of people, thus freeing the general revenue of the society from a considerable burden.

The expense of the **institutions for education and religious instruction** is also beneficial to the whole society, and may therefore, without injustice, be defrayed by the general contribution of the whole society. But this expense might with equal propriety—and even with some advantage—be entirely defrayed by those who receive the immediate benefit of such education and instruction, i.e. by the voluntary contribution of those who think they need one or the other.

When the **institutions or public works** that are beneficial to the whole society are not—perhaps cannot be—entirely maintained by the contribution of the members of the society who are most immediately benefited by them, the deficiency must usually be made up by the general contribution of the whole society.

So the general revenue of the society, as well as defraying the expense of defending the society and supporting the dignity of the chief magistrate, must make up for the deficiency of many particular branches of revenue. In the next chapter I shall try to explain the sources of this general or public revenue.

Chapter 2: The sources of the general or public revenue of the society

The revenue that must defray all the necessary expenses of government for which the constitution of the state has not provided any particular revenue can come either from **(1)** some fund that belongs particularly to the sovereign or commonwealth and is independent of the revenue of the people or **(2)** from the revenue of the people.

Part 1. The funds that belong particularly to the sovereign or commonwealth

The funds or sources of revenue that particularly belong to the sovereign or commonwealth must consist in stock or in land.

The sovereign, like, any other owner of stock, can derive revenue from it either as •profit from employing it himself or as •interest from lending it.

The revenue of a Tatar or Arabian chief consists in profit. It arises principally from the milk and increase of his own herds and flocks which he manages himself, being the principal shepherd or herdsman of his own tribe. But it is *only* in this earliest and rudest state of civil government that profit has ever been the main part of the public revenue of a monarchical state.

Small republics have sometimes derived a considerable revenue from the profit of mercantile projects. [He gives examples—Hamburg, Venice and Amsterdam—with details. Against those who say that the government of Great Britain could take over the bank of England and draw revenue from its profits, he says:] Experience shows that the orderly, vigilant, and parsimonious administration of such aristocracies as those of Venice and Amsterdam is proper for the management of a mercantile project of this kind. But whether a government such as England's could be safely trusted with the management of such a project must at least be a good deal more doubtful. That government, whatever its virtues, has never been famous for good economy. In times of peace it has generally conducted itself with the slothful and negligent profusion that is perhaps natural to monarchies; and in times of war it has constantly acted with all the thoughtless extravagance that democracies are apt to fall into.

The post-office is properly a mercantile project. The government advances the expense of establishing the offices, and of buying or hiring the necessary horses or carriages, and is repaid with a large profit by the duties on what is carried. It may be the only mercantile project that has been successfully managed by every sort of government. The capital to be advanced is not very considerable. There is no mystery in the business. The returns are not only certain but immediate.

Princes have often engaged in many other mercantile projects, trying like private persons to mend their fortunes through ventures in the common branches of trade. They have hardly ever succeeded. The profusion with which the affairs of princes are always managed makes it almost impossible that they should. The agents of a prince regard their master's wealth as inexhaustible; they are careless about what price they buy at, what price they sell at, what price they pay to transport his goods. . . .

No two characters seem more inconsistent than those of trader and sovereign. If the trading spirit of the English East India company makes them very bad sovereigns, the spirit of sovereignty seems to have made them equally bad traders. While they were only traders they managed their trade successfully and were able to pay from their profits a moderate dividend to the owners of their stock. Since they became sovereigns—with a revenue that is said originally to have been more than £3,000,000—they have had to beg the ordinary assistance of government so as to avoid immediate bankruptcy. In their former situation, their servants in India saw themselves as the clerks of merchants; in their present situation, those servants see themselves as the ministers of sovereigns.

A state may sometimes get a part of its public revenue from the interest on money as well as from the profits of

stock. If it has amassed a treasure it may lend a part of that treasure to foreign states or to its own subjects. [Smith describes the somewhat odd ways in which this is done by the canton of Berne and the city of Hamburg. Then:]

The government of Pennsylvania, without amassing any treasure, found a way of lending to subjects something equivalent to money, namely paper bills of credit, at interest and on land security to double the value, to be redeemed after fifteen years. During those fifteen years they could be transferred from hand to hand, like banknotes, and were declared by act of assembly to be a legal tender in all payments from one inhabitant of the province to another. This raised a moderate revenue that went a considerable way towards defraying an annual expense of about £4,500, the whole ordinary expense of that frugal and orderly government. . . . The same expedient was adopted by several other American colonies, but it produced in most of them much more disorder than convenience, because they issued paper bills of credit exceeding the value of the gold and silver money that would have been necessary for carrying on their circulation if there had been no paper bills of credit.

The unstable and perishable nature of stock and credit makes them unfit to be trusted as the principal source of the sure, steady, and permanent revenue that is needed for the security and dignity of government. The government of no large nation that was advanced beyond the shepherd state seems ever to have derived most of its public revenue from such sources.

Land is a fund of more stable and permanent nature; and the rent of public lands has been the principal source of the public revenue of many large nations that had advanced much beyond the shepherd state. For a long time the ancient republics of Greece and Italy derived most of the revenue that defrayed the necessary expenses of the commonwealth

from the product or rent of the public lands. The rent of the crown lands constituted for a long time most of the revenue of the ancient sovereigns of Europe.

War and the preparation for war are the two circumstances which in modern times cause most of the necessary expense of all large states. But in the ancient republics of Greece and Italy every citizen was a soldier, and served (and prepared himself for service) at his own expense. . . . The rent of a very moderate landed estate might be fully sufficient for defraying all the *other* necessary expenses of government.

In the ancient monarchies of Europe the manners and customs of the time sufficiently prepared most of the people for war; and the condition of their feudal tenures meant that when they took the field they were to be maintained at their own expense or at that of their immediate lords, without bringing any new charge on the sovereign. The other expenses of government were mostly very moderate. The administration of justice was, as I have shown, not an expense but a source of revenue. The labour of the country people for three days before harvest and three days after was thought a fund sufficient for making and maintaining all the bridges, highways, etc. that the commerce of the country was supposed to require. In those days the principal expense of the sovereign seems to have consisted in the maintenance of his own family and household. [He gives some details about how this was managed, concluding:] The rent of a great landed estate such as the sovereign possessed might on ordinary occasions very well defray all the necessary expenses of government.

In the present state of most of the civilised monarchies of Europe the rent of all the lands in the country, if managed as they probably would be if they all belonged to one proprietor, would hardly amount to the ordinary revenue that governments levy on the people even in peaceable

times. [Smith discusses the case of Great Britain, where he says that income from crown lands is vastly less than the government needs. He concludes:] The crown lands of Great Britain do not at present provide a quarter of the rent that could probably be drawn from them if they were the property of private persons. If the crown lands were more extensive they would probably be even worse managed. . . .

There is not at present in Europe any civilised state of any kind that gets most of its public revenue from the rent of lands belonging to the state; but in all the large European monarchies there are still many large tracts of land belonging to the crown. They are generally wild and uncultivated areas, in some of which you can travel for miles seeing hardly a single tree; a mere waste and loss of countryside, in respect of product and of population. In every large European monarchy the sale of the crown lands would produce a very large sum of money, which if applied to the payment of the public debts would deliver from mortgage a much greater revenue than any that those lands have ever provided to the crown. . . . When the crown lands had become private property, they would in the course of a few years become well improved and well cultivated. The increase of their product would increase the population of the country by increasing the revenue and consumption of the people. The population increase might add somewhat to the expenses of government, but the revenue the crown derives from the duties or custom and excise would necessarily increase with the revenue and consumption of the people.

The revenue that the crown derives from the crown lands in any civilised monarchy, though it appears to cost nothing to individuals, actually costs more to the society than perhaps any other equal revenue the crown enjoys. It would always be in the interests of the society to replace this revenue for the crown by some other equal revenue, and to

divide the lands among the people. . . .by exposing them to public sale.

Lands for the purposes of pleasure and magnificence—parks, gardens, public walks, etc.—possessions that are everywhere regarded as causes of expense rather than sources of revenue, seem to be the only lands that ought to belong to the crown in a large and civilised monarchy.

Thus, public stock and public lands, the two sources of revenue that can belong specifically to the sovereign or commonwealth, are •improper and •insufficient funds for defraying the necessary expense of any large and civilised state. So most of this expense must be defrayed by taxes of some kind through which the people contribute a part of their own private income to create a public revenue for the sovereign or commonwealth.

Part 2. Taxes

The private income of individuals, I showed in Book I, arises basically from three sources—rent, profit, and wages. Every tax must ultimately be paid from one or more of those three sources of income. I shall give the best account I can of taxes that are intended to fall on

- (1) rent,
- (2) profit,
- (3) wages, or
- (4) indifferently on all those three sources of private income.

The particular consideration of each of these four sorts of taxes will divide the second part of the present chapter into four sections, of which all but (3) will have several subdivisions. It will turn out that many of these taxes are not ultimately paid from the source of income they are intended to fall on.

Before examining particular taxes I must premise the four following maxims concerning taxes in general.

(i) The subjects of every state ought to contribute towards the support of the government, as nearly as possible, in proportion to their abilities, i.e. in proportion to the income they enjoy under the protection of the state. The expense of government to the individuals of a large nation is like the expense of management to the joint tenants of a large estate, who are all obliged to contribute in proportion to their respective interests in the estate. What is called the equality or inequality [here = 'fairness or unfairness'] of taxation consists in conformity to or departure from this maxim. Every tax that ultimately falls on just one of the three sorts of income above mentioned—rent, profit, wages—is necessarily unequal in so far as it does not affect the other two. In this chapter I shall seldom take much notice of this sort of inequality, and shall usually confine my observations to the inequality that arises from a particular tax's falling unequally across particular sorts of rent, or of profit, or of wages.

(ii) The tax that each individual is bound to pay ought to be certain and not arbitrary. The time of payment, the manner of payment, the amount to be paid, ought all to be clear and plain to the contributor and to everyone else. . . . The uncertainty of taxation encourages the insolence and favours the corruption of tax-gatherers, who are naturally unpopular even where they are neither insolent nor corrupt. I think that the experience of all nations shows that a very considerable degree of inequality is not nearly as great an evil as a very small degree of uncertainty.

(iii) Every tax ought to be levied at the time when it is most likely to be convenient for the contributor to pay it. A tax on the rent of land or of houses, payable at the same term at which such rents are usually paid, is levied at the time when the contributor is most likely to have the wherewithal

to pay. Taxes on articles of luxury are all ultimately paid by the consumer, and generally in a manner that is convenient for him. He pays them little by little, as he has occasion to buy the goods. It must be his own fault if he ever suffers any considerable inconvenience from such taxes, because he always has the option of not buying.

(iv) Every tax ought to be designed so that it takes out (and keeps out) of the pockets of the people as little as possible, over and above what it brings into the state's public treasury. There are four ways in which this can be infringed. **(a)** Raising the tax may require many officers whose salaries eat up most of the product of the tax, **(b)** The tax may obstruct the industry of the people, discouraging them from engaging in certain branches of business that could give maintenance and employment to great multitudes. If this happens, the tax, while requiring the people to pay, lessens or even destroys some of the funds that might make it easier for them to do so. **(c)** By the penalties incurred by the unfortunate individuals who try unsuccessfully to evade the tax, it may often ruin them, thereby ending the benefit the community might have received from the employment of their capital. An injudicious tax offers a great temptation to smuggling; and the penalties for smuggling arise in proportion to the temptation. Contrary to all the ordinary principles of justice, the law first creates the temptation and then punishes those who yield to it; and often it increases the punishment in proportion to the very thing that ought to alleviate it, namely the temptation to commit the crime. **(d)** By subjecting the people to the frequent visits and the odious examination of the tax-gatherers, it may expose them to much unnecessary trouble, vexation, and oppression; and though vexation is not strictly speaking an expense, it is certainly equivalent to the expense at which every man would be willing to release himself from it.—These are the four ways in which taxes are

often so much more burdensome to the people than they are beneficial to the sovereign.

The evident justice and utility of the foregoing maxims have recommended them somewhat to the attention of all nations. All nations have tried to the best of their judgment to make their taxes conform to the maxims. The following short review of some of the principal taxes that have occurred in different ages and countries will show that the efforts of all nations have not been equally successful in this. [Smith's 'short review', 70 pages long, will be much shortened here.]

(1a) Taxes on the rent of land

A tax on the rent of land may be imposed either

- according to a certain canon, every district being valued at a certain rent, the valuation being fixed, or
- in such a way as to vary with every variation in the real rent of the land, rising or falling with the improvement or decline of its cultivation.

A land tax like that of Great Britain, which is assessed on each district according to a certain invariable canon, even if it is equal at the outset, inevitably becomes unequal because of the unequal degrees of improvement or neglect in the cultivation of the different parts of the country. The tax of this kind in England, based on valuations made at the time of William and Mary, was very unequal from the start; so it offends against maxim **(i)** but conforms to **(ii)–(iv)**. [He goes on to say that as land is improved the landlord's rent goes up; but this tax stays the same. Thus, the prosperity of Great Britain has led to improvement in nearly all land, with the result that] the constancy of the valuation has been advantageous to the landlord and hurtful to the sovereign. In a different state of things it might have been advantageous to the sovereign and hurtful to the landlord.

[Smith goes on to say that this tax is stated in terms of money, as is the valuation of the land; so that if there had been any large change in value of silver, that would have made a big difference to the tax. There *hasn't* been any such change, he says, but:] Every constitution that it is meant to be as permanent as the empire itself ought to be convenient not merely in certain circumstances but in all circumstances, i.e. ought to be suited not to circumstances that are transitory, occasional, or accidental, but to those that are necessary and therefore always the same.

A tax on the rent of land that varies with every variation of the rent, i.e. that rises or falls according to the improvement or neglect of cultivation, is recommended as the fairest of all taxes by the sect of men of letters in France who call themselves the 'economists'. All taxes, they claim, fall ultimately on the rent of land, and ought therefore to be imposed equally on the fund that must finally [see Glossary] pay them. It is certainly true that all taxes should fall as equally as possible on the fund that must finally pay them; but I shall now exhibit which taxes do fall finally on the rent of the land and which do not. (I shan't enter into the disagreeable discussion of the metaphysical arguments by which the 'economists' support their very ingenious theory.)

[Smith describes the tax that is imposed 'in the Venetian territory', a 'land-tax that varies with every variation of the rent', describing it as **(i)** 'more equal than the land-tax of England' but as possibly defective in **(ii)** certainty, **(iii)** convenience and **(iv)** inexpensiveness. He discusses at length possible ways of overcoming these defects. Then:]

The most important objection that can be made to a variable land-tax of this kind seems to be the discouragement it might give to the improvement of land. The landlord would certainly be less disposed to improve his land if the sovereign was to share in the profit of the improvement

without contributing anything to the expense of it. This objection might be met by allowing the landlord, before he began his improvement, to ascertain. . . .the actual value of his lands, and to have his land-tax fixed on the basis of *that* valuation for a fixed number of years. A principal advantage of this kind of land-tax is that it would draw the the sovereign's attention towards the improvement of the land as a source of increase of his own revenue. So the term fixed for the landlord's indemnification [= freedom from tax-increases] ought not to be much longer than what was necessary for that purpose, because the sovereign may lose interest if the advantage to him is too far off in the future. But it had better be •somewhat too long than •in any respect too short. No incitement to the attention of the sovereign can ever counterbalance the smallest discouragement to that of the landlord. The attention of the sovereign cannot be more than a very general and vague consideration of what is likely to contribute to the welfare of his dominions. The attention of the landlord is a particular and minute consideration of what is likely to be the most advantageous application of every inch of ground on his estate. . . .

If a tax of this kind could be so managed as to give some *encouragement* to the improvement of land, it does not appear likely to **(iii)** cause any other inconvenience to the landlord except the always unavoidable one of having to pay the tax. In all the variations of the state of the society, in the improvement and in the decline of agriculture; in all the variations in the value of silver, and in all those in the standard of the coin, a tax of this kind would automatically and without any attention of government adjust itself to the actual situation of things, and would be equally **(i)** just and equitable in all those changes. So it would be much more proper to be established as a perpetual and unalterable regulation—i.e. what is called a fundamental law of the

commonwealth—than any tax that was always to be levied according to a certain valuation.

[Smith has spoken of the procedure of establishing land-values by keeping an official register of the lease arrangements between landlords and farmers. He now returns to this:] Some states, instead of the simple and obvious expedient of a register of leases, have resorted to the laborious and expensive procedure of an actual survey and valuation of all the lands in the country. They have probably suspected that the lessor and lessee, in order to defraud the public revenue, might combine to conceal the real terms of the lease. The doomsday-book seems to have been the result of a very accurate survey of this kind. [He now has a couple of pages describing variants of this approach, finding them to be laborious, expensive, and in the long run unfair.]

(1b) Taxes on the product of land

Taxes on the product of land are really taxes on the rent; and though they may be initially advanced by the farmer they are finally paid by the landlord. When a certain portion of the product is to be paid as a tax, the farmer computes as well as he can what the value of this portion is likely to amount to, and he reduces proportionally the rent he agrees to pay to the landlord. There is no farmer who does not compute beforehand what the church tithe (which is a land tax of this kind) is likely to amount to.

Every land tax of this kind, under the appearance of perfect equality, is very unequal, because a certain portion of the product is equivalent to very different portions of the rent in different situations. In some rich lands the product is so great that one half of it is sufficient to replace the capital the farmer employed in cultivation, together with the ordinary profits of farming stock in his neighbourhood. He could afford to pay the value of the other half as rent

to the landlord, if there was no tithe. But if a tenth of the product is taken from him by way of tithe, he must require a one-fifth reduction in his rent; otherwise he cannot get back his capital with the ordinary profit. In this case the landlord's rent will amount only to four-tenths of (the value of) the product. In poorer lands, on the other hand, the product is sometimes so small and the expense of cultivation so great that it requires four-fifths of the whole product to replace the farmer's capital with the ordinary profit. In this case, if there was no tithe the landlord's rent could amount to no more than one-fifth of the whole product. But if the farmer pays one-tenth of the product by way of tithe, he must require an equal reduction in the rent he pays the landlord, which will thus be reduced to one-tenth of the whole product. Thus, on the rent of rich lands the tithe may sometimes be a tax of no more than one-fifth, i.e. four shillings in the pound; whereas on that of poorer lands it may sometimes be a tax of one half, i.e. ten shillings in the pound.

The tithe is always a great discouragement

- to the improvements of the landlord, who cannot venture to make the most important improvements, which are generally the most expensive, and
- to the cultivation of the farmer, because the most valuable crops are generally also the most expensive, given that the church, which lays out no part of the expense, is to share so very largely in the profit. The cultivation of madder was for a long time confined by the tithe to the United Provinces which, being presbyterian countries and thus exempt from this destructive tax, enjoyed a sort of European monopoly of that useful dyeing drug. Recent attempts to introduce the culture of this plant into England would not have been made if it were not for a statute enacting that five shillings an acre should be received in lieu of any sort of tithe on madder.

[Smith adds two or three pages on different versions of tax-on-product in various (mostly Asian) countries, and is sceptical about all of them. He discusses the practice of taking the tax not in money but 'in kind', i.e. in the actual product of the land. This is especially open to abuse or neglect on the part of the tax-gatherers, he says, especially if the recipient of the tax is a long way away from the land in question. He adds to his catalogue of bad behaviour by the 'servants of the East India company'.]

(1c) Taxes on the rent of houses

The rent of a house can be divided into two parts: the building-rent and the ground-rent.

The building-rent is the interest or profit of the capital spent in building the house. For the trade of builder to be on a level with other trades this rent must be sufficient

- to pay him the same interest that he would have received for his capital if he had lent it on good security; and
- to keep the house in constant repair, i.e. to replace within a certain term of years the capital employed in building it.

So the building-rent—or ordinary profit of building—is always regulated by the ordinary interest on money. Where the market rate of interest is 4%, a house-rent that provides 6% or 6½% on the whole expense of building may provide a sufficient profit to the builder. (The ground-rent is additional to this.) Where the market rate of interest is 5% it may require 7% or 7½%. If in proportion to the interest on money the builder's trade ever provides a much greater profit than this, it will soon attract so much capital from other trades that its profit will sink to its proper level. If it ever provides much less than this, other trades will soon draw so much capital from it that its profit will go up again.

Whatever part of the whole rent of a house is over and above what provides this reasonable profit naturally goes to the ground-rent; and if the owner of the ground and the owner of the building are two persons this is usually all paid to the former. This surplus rent is the price the inhabitant of the house pays for some real or supposed advantage of the situation. In country houses at a distance from any large town where there is plenty of ground available, the ground-rent is almost nothing—no more than what the ground the house stands on would pay if employed in agriculture. In country villas in the neighbourhood of some large town it is sometimes a good deal higher, and the special convenience or beauty of situation is often well paid for. Ground-rents are generally highest in the capital city, and in the parts of it where there happens to be the greatest demand for houses, whatever the reason is for that demand. . . .

[Smith writes about these two components of house-rent and the effects of taxes on them. His main point is that a house-occupant can avoid some of the tax on the building-rent by moving to a less expensive house, whereas the owner of the land has no such easy expedient for reducing the tax on ground rent that he must pay.]

[After several pages of complicated stuff about building rent and ground rent, Smith turns to the question of how the tax authorities in England have dealt with the ‘difficulty’ (he doesn’t think there is one) of establishing what the real rent is for each house, namely by fixing on some feature of a house which is easy to establish and which (they think) ‘bears some proportion to the rent’. For a while, a house was taxed according to how many hearths it contained; but this required the tax gatherer to enter every room of the house, an ‘odious’ procedure which led to the abandonment of this approach. The main other device—still in force when Smith

was writing—was to tax a house on the basis of how many windows it has, the rate per window being higher for houses with more windows. Smith objects:] The principal objection to all such taxes is their inequality; an inequality of the worst kind because they must often fall much more heavily on the poor than on the rich. A house of £10 rent in a country town may sometimes have more windows than a house of £500 rent in London; and though the inhabitant of the former is likely to be a much poorer man than that of the latter, yet so far as his contribution is regulated by the window tax he must contribute more to the support of the state. Such taxes are therefore directly contrary to my maxim (i); they seem not to offend much against any of (ii)–(iv).

(2a) Taxes on profit

The income or profit arising from stock naturally divides into two parts: •that which pays the interest, and belongs to the owner of the stock, and •the remainder, the surplus part that is over and above what it takes to pay the interest.

This latter part of profit is evidently not taxable directly. [Smith explains why. If it is taxed, the owner of the stock must, ‘consistently with his own interest’, follow some procedure which would result in the tax’s ‘finally’ falling on •his landlord (if he is a farmer), •consumers of his goods (if he is a manufacturer), or •‘the interest on money’. But then why can’t the interest on money be taxed directly, as the rent of land is? Smith explains:] Two circumstances make the interest on money a much less proper subject of direct taxation than the rent of land.

(a) The quantity and value of the land that a man possesses can never be a secret, and can always be ascertained with great exactness. But the whole amount of the capital stock he possesses is almost always a secret, and can hardly ever be ascertained with tolerable exactness. And

it is liable to almost continual variations. . . . An inquisition into every man's private circumstances—watching over all the fluctuations of his fortune—would be a source of such continual and endless vexation that no person could bear it.

(b) Land cannot be moved, whereas stock easily can. The owner of land is necessarily a citizen of the particular country in which his estate lies. The owner of stock is really a citizen of the world, and is not necessarily attached to any particular country. He would be apt to abandon the country in which he was exposed to a vexatious inquisition in order to be assessed for a burdensome tax; and would move his stock to some other country where he could carry on his business or enjoy his fortune more at his ease. By moving his stock he would put an end to all the industry it had maintained in the country he left. Stock cultivates land; stock employs labour. A tax tending to drive stock away from a country would tend to dry up every source of revenue to the sovereign and to the society. Not only the profits of stock, but also the rent of land and the wages of labour, would inevitably be somewhat diminished by its removal.

So the nations that have tried to tax the income arising from stock have avoided any severe inquisition of this kind by resorting to some very loose and therefore somewhat arbitrary estimation. The extreme inequality and uncertainty of a tax assessed in this manner can be compensated for only by its extreme moderation, in consequence of which each man finds himself rated so much below his real income that he does not much mind if his neighbour is rated somewhat lower.

[Smith gives details concerning how this matter has been handled in various countries, including England (a complex story). He reports that 'In all countries a severe inquisition into the circumstances of private persons has been carefully avoided.' In Hamburg each individual assesses himself and

pays tax accordingly, but neither the assessment nor the tax are made public:] This tax is generally supposed to be paid with great fidelity. In a small republic where the people have entire confidence in their magistrates, are convinced of the necessity of the tax for the support of the state, and believe that it will be faithfully applied to that purpose, such conscientious and voluntary payment may sometimes be expected. It is not restricted to the people of Hamburg.

[In several countries each individual publicly declares on oath the value of his stock, and in many such declarations are trustworthy and trusted. Smith gives details of some of these, including certain Swiss cantons. He remarks:] To oblige every citizen to declare publicly on oath the amount of his fortune is apparently not regarded as a hardship in those Swiss cantons. At Hamburg it would be reckoned the greatest hardship. Merchants engaged in the hazardous projects of trade all tremble at the thought of being obliged at all times to expose the real state of their circumstances. They foresee that this would often lead to the ruin of their credit and the miscarriage of their projects. A sober and parsimonious people who do not engage in such projects do not feel that they have occasion for any such concealment. . . .

(2b) Taxes on the profit of particular employments

In some countries special taxes are imposed on the profits of stock, sometimes when employed in particular branches of trade and sometimes when employed in agriculture.

Of the former kind in England are the tax on hawkers and pedlars, on hackney-coaches and chairs, and the tax that the keepers of ale-houses pay for a licence to retail ale and spirituous liquors. . . .

A tax on the profits of stock employed in any particular branch of trade always. . . . finally falls on the consumers, who have to pay in the price of the goods the tax that the

dealer advances—and generally with some overcharge.

A tax of this kind, when it is proportioned to the trade of the dealer, is finally paid by the consumer and does not oppress the dealer. When instead it is the same for all dealers, it is again finally paid by the consumer large dealer and somewhat oppresses the small one. [He gives examples of both kinds of tax, proportional and flat-rate, all involving taxes that are small enough not to make any great difference. Then:] The tax on shops was intended to be the same for all shops. It could not well have been otherwise. To proportion with tolerable exactness the tax on a shop to the extent of the trade carried on in it would require an inquisition that would be altogether intolerable in a free country. If the tax had been considerable it would have oppressed the small dealers and forced almost the whole retail trade into the hands of the large ones [and he explains how that would have created monopolies, the ultimate loser being the consumer.] For these reasons, the project of a tax on shops was laid aside, its place being taken by the subsidy, 1759.

[Smith now devotes a couple of pages to different forms of land-tax that developed in Europe during its feudal period, when ‘the sovereign was obliged to content himself with taxing those who were too weak to refuse to pay taxes’. Then:]

When a tax is imposed on the profits of stock in a particular branch of **trade**, the traders are all careful to bring no more goods to market than they can sell at a price high enough to reimburse them for paying the tax. Some of them withdraw a part of their stocks from the trade, and the market is more sparingly supplied than before. The price of the goods rises, and the final payment of the tax falls on the consumer. But when a tax is imposed on the profits of stock employed in **agriculture**, it is not in the interests of the farmers to withdraw any part of their stock from that employment. Each farmer occupies a certain quantity of

land for which he pays rent. For the proper cultivation of this land, a certain quantity of stock is necessary; and by withdrawing any part of this necessary quantity the farmer is not likely to be more able to pay either the rent or the tax. . . . After the imposition of a tax of this kind, the farmer can get a reasonable profit only by paying less rent to the landlord; the more tax he has to pay the less he can afford to pay in rent. When a tax of this kind is imposed during the currency of a lease, it may no doubt distress or ruin the farmer. On the renewal of the lease, it must always fall on the landlord.

What are called poll-taxes in the southern provinces of North America and the West India islands—annual taxes of so much per head on every negro—are really taxes on the profits of a certain species of stock employed in agriculture. As the planters are mostly both farmers and landlords, the final payment of the tax falls on them in their role as landlords, with no way of getting recompense.

Taxes of so much per head on the bondmen employed in cultivation seem once to have been common all over Europe; and there is one now in the empire of Russia. It is probably on this account that poll-taxes of all kinds have often been represented as badges of slavery. Every tax, however, is, to the person who pays it a badge not of slavery but of liberty. It shows that he is subject to government, indeed, but it also shows that as he *has* some property he cannot himself *be* the property of a master. A poll-tax on slaves is altogether different from a poll-tax on freemen. The latter is paid by the persons on whom it is imposed; the former by a different set of persons. The latter is altogether arbitrary or altogether unequal, and in most cases it is both; the former, though in some respects unequal (because different slaves have different values) is in no way arbitrary. Every master who knows the number of his own slaves knows exactly what he

has to pay. Those different taxes have been considered as of the same nature because they are called by the same name.

The taxes which in Holland are imposed on servants are taxes not on stock but on expense, and to that extent resemble the taxes on consumable commodities. The tax of a guinea a head for every man-servant, which has lately been imposed in Great Britain, is of the same kind. It falls heaviest on the middling rank. A man with £200 a year may keep a single man-servant. A man with £10,000 a year will not keep fifty. It does not affect the poor.

Taxes on the profits of stock in particular employments can never affect interest-rates. [Smith goes into some details about this in relation to France and to England.]

(2c) Taxes on the capital value of lands, houses, and stock

While property remains in the possession of the same person, any permanent taxes imposed on it have never been intended to take away any part of its capital value but only some part of the income arising from it. But when property changes hands—transmitted from the dead to the living or from the living to the living—taxes have often been imposed on it that necessarily take away part of its capital value.

The transference of all sorts of property from the dead to the living, and of immovable property of land and houses from the living to the living, are transactions which in their nature. . . . cannot be long concealed; so they can be taxed directly. The transference of stock or movable property from the living to the living, by the lending of money, is often a secret transaction and can always be made so; so it cannot easily be taxed directly. It has been taxed indirectly in two ways, by ruling that the loan is not valid unless •the deed containing the obligation to repay it is written on paper or parchment on which a certain stamp duty has been paid, or •it is recorded in a public or secret register, a duty being

charged for such registration. Stamp duties and duties of registration have often been imposed likewise on the deeds transferring property of all kinds from the dead to the living, and on those transferring immovable property from the living to the living; transactions which could easily have been taxed directly.

[Smith spends about three pages on details of various kinds of death-duties down the centuries, and the uses of stamp-duties and duties on registration to tax land-sales etc. He concludes sardonically:] Those modes of taxation, by stamp duties and by duties on registration, are of very modern invention. In the course of little more than a century stamp duties have become almost universal in Europe, and duties on registration extremely common. There is no art that one government sooner learns from another than that of draining money from the pockets of the people.

Taxes on the transference of property from the dead to the living fall immediately and finally [see Glossary] on the persons to whom the property is transferred. Taxes on the sale of land fall altogether on the seller. The seller almost always *has to* sell, and must therefore settle for what price he can get. The buyer is hardly ever under the necessity of buying, and will therefore only pay a price that he likes. He considers what the land will cost him in tax and price together; the more he has to pay in tax the less he will be disposed to give as price. Such taxes, therefore, fall almost always on a person in need, and are often very cruel and oppressive. Taxes on the sale of new-built houses, where the building is sold without the ground, fall on the buyer, because the builder must have his profit or else give up the trade. If he advances the tax, therefore, the buyer must repay it to him. Taxes on the sale of old houses, for the same reason as those on the sale of land, fall generally on the seller, who in most cases is obliged to sell by convenience or necessity. The number of new-built

houses that are annually brought to market is more or less regulated by the demand. Unless the demand provides the builder his profit after paying all expenses, he will build no more houses. The number of old houses that happen at any time to come to market is regulated by stray events most of which have no relation to the demand. Two or three great bankruptcies in a mercantile town will bring on the market many houses that must be sold for what can be got for them. Taxes on the sale of ground-rents fall altogether on the seller, for the same reason as those on the sale of lands. Stamp duties, and duties on the registration of bonds and contracts for borrowed money, fall entirely on the borrower and are in fact always paid by him. Duties of the same kind on law proceedings fall on the suitors. They reduce to both the capital value of the subject in dispute. The more it costs to acquire a property the less must be its value when acquired.

All taxes on the transference of property of any kind lessen the capital value of that property and thus tend to diminish the funds destined for the maintenance of productive labour. They are all somewhat unthrifty—taxes that increase the revenue of the sovereign, which seldom maintains any but unproductive labourers, at the expense of the capital of the people, which maintains none but productive labourers.

[In this paragraph Smith is in effect saying of these taxes that they satisfy (ii)–(iii)–(iv) but not (i) of his ‘maxims’ on page 224.] Even when they are proportioned to the value of the property transferred, such taxes are still **(i)** unequal because properties of equal value may differ in how frequently they are transferred. When they are not proportioned to this value—which is the case with most stamp duties and duties of registration—they are still more unequal. They are in no way **(ii)** arbitrary, but are or always can be perfectly clear and certain. Though they sometimes fall on the person who is not very able to pay, **(iii)** the time of payment is in most cases sufficiently

convenient for him. . . . **(iv)** They are levied at very little expense, and in general they subject the contributors to no inconvenience except the unavoidable one of paying the tax.

In France the stamp duties are not much complained of, registration duties *are*. They are said to give rise to much extortion by the officers of the tax-farmers [i.e. private businesses that collect taxes on behalf of the government], extortion that is in a great measure arbitrary and uncertain. In most of the pamphlets written against the present system of finances in France, the abuses of the registration-duty system loom large. But uncertainty does not seem to be necessarily inherent in the nature of such taxes. If the popular complaints are well founded, the abuse must arise not so much from the nature of the tax as from the lack of precision and clarity in the edicts or laws that impose it.

The registration of mortgages and of all other rights on immovable property gives great security both to creditors and purchasers, which makes it extremely advantageous to the public. The registration of most deeds of other kinds is often inconvenient and even dangerous to individuals, without any advantage to the public. All registers which it is accepted ought to be kept secret ought not to exist in the first place. The credit of individuals ought never to depend on such a slender security as the probity and religion of the lower officers of revenue. But where the fees of registration have been made a source of revenue to the sovereign, register-offices have commonly been multiplied without end, both for deeds that ought to be registered and for those that ought not. In France there are several sorts of secret registers. This abuse is a very natural effect of such taxes, though not perhaps a necessary one.

Stamp duties such as those in England on cards and dice, on newspapers and periodical pamphlets, etc. are really taxes on consumption; the final payment falls on the persons

who use or consume such commodities. Stamp duties such as those on licences to retail ale, wine, and spirituous liquors, though intended perhaps to fall on the profits of the retailers, are also finally paid by the consumers of those liquors. Such taxes are called by the same name as the stamp duties on the transference of property, and are levied by the same officers and in the same manner, but they are of a quite different nature and fall on quite different funds.

(3) Taxes on the wages of labour

I tried to show in Book I that the wages of the lower classes of workmen are everywhere necessarily regulated by •the demand for labour and •the ordinary or average price of provisions. . . . While the demand for labour and the price of provisions remain the same, a direct tax on the wages of labour can have no other effect, than to raise them. . . . Suppose that in a particular place the demand for labour and the price of provisions were such as to render 10/- a week the ordinary wages of labour; and that a 20% tax is imposed on wages. If the demand for labour and the price of provisions remain the same, a labourer in that place would still have to earn a subsistence that could be bought only for 10/- a week, meaning that after paying the tax he must have 10/- a week free wages. But in order to leave him such free wages after paying such a tax, the price of labour must soon rise not to 12/- a week only but to 12/6d; that is, to enable him to pay a 20% tax his wages must rise by 25%. Whatever was the proportion of the tax, the wages of labour must rise in a higher proportion. . . .

So a direct tax on the wages of labour, even if the labourer paid it out of his hand, could not properly be said to be even advanced by him; at least if the demand for labour and the average price of provisions remained the same after the tax as before it. In all such cases, not only the tax but something

more than the tax would in reality be advanced by the person who immediately employed him. The final payment would fall on different persons in different cases. The rise that such a tax might cause in the wages of manufacturing labour would be advanced by the master manufacturer, who would be entitled (indeed obliged) to add it with a profit to the price of his goods. So the final payment of this rise of wages, plus the additional profit of the master manufacturer, would fall on the consumer. The rise that such a tax might occasion in the wages of country labour would be advanced by the farmer, who would be obliged to employ more capital. In order to get this back, along with the ordinary profits of stock, he would have to retain a larger portion—i.e. the price of a larger portion—of the product of the land, and consequently to pay less rent to the landlord. In this case, therefore, the final payment of this rise of wages would fall on the landlord, along with the additional profit of the farmer who had advanced it. In all cases, a direct tax on the wages of labour must in the long run cause a greater reduction in the rent of land and a greater rise in the price of manufactured goods than would have followed from the proper assessment of a sum equal to the product of the tax, partly on the rent of land and partly on consumable commodities.

If direct taxes on the wages of labour have not always led to a proportional rise in those wages, that is because they have generally led to a fall in the demand for labour. Such taxes have generally led to •the decline of industry, •the decrease of employment for the poor, and •the lessening of the annual product of the land and labour of the country. In consequence of them, however, the price of labour must always be higher than it otherwise would have been in the actual state of the demand; and this increased price (along with the profit of those who advance it) must always be finally paid by the landlords and consumers. . . .

Absurd and destructive as such taxes are, they occur in many countries. [He gives examples from France and Bohemia; and then goes on to say that direct taxes on the incomes 'of ingenious artists, and of men of liberal professions' have the same effect as taxes on the incomes of 'inferior trades'. Then:]

The emoluments of offices [here = 'official governmental positions'] are not, like those of trades and professions, regulated by the free competition of the market, and are therefore not always proportional to what the nature of the employment requires. They are perhaps in most countries higher than it requires, because those who have the administration of government being generally disposed to reward themselves and their immediate dependents more than enough! In most cases, therefore, the emoluments of offices can very well bear to be taxed. Also, those who enjoy public offices (especially the more lucrative ones) are in all countries the objects of general envy; and a tax on their emoluments, even if it is higher than on any other sort of revenue, is always a very popular tax. In England when every other sort of income was supposed to be assessed at 4/- in the pound (for the land-tax), it was very popular to tax at 5/6d in the pound the salaries of offices that exceeded £100 a year; with the exception of the pensions of the younger branches of the royal family, the pay of the officers of the army and navy, and a few others less vulnerable to envy. There are in England no other direct taxes on the wages of labour.

(4) Taxes that are meant to apply equally to every kind of income

The taxes that are meant to fall equally on every kind of income are **(a)** capitation taxes, and **(b)** taxes on consumable commodities. Those must be paid from whatever income the contributors may possess—from the rent of their land, from

the profits of their stock, or from the wages of their labour.

(4a) Capitation taxes

If it is attempted to proportion capitation taxes to the fortune or income of each contributor, they become altogether arbitrary. The state of a man's fortune varies from day to day; and it can only be guessed at unless an inquisition more intolerable than any tax is renewed at least once every year. So his assessment must in most cases depend on the good or bad humour of his assessors, and must therefore be altogether arbitrary and uncertain.

If capitation taxes are proportioned not to each contributor's supposed fortune but to his rank, they become altogether unequal because the degrees of fortune are often unequal in the same degree of rank.

If it is attempted to make such taxes equal, they become altogether arbitrary and uncertain; and if it is attempted to make them certain and not arbitrary, they become altogether unequal. Let the tax be light or heavy, uncertainty is always a great grievance. In a light tax a considerable degree of inequality may be supported; in a heavy one it is intolerable.

[Smith gives a page to describing how capitation taxes have fared in France and in England. They have been damaging but lucrative in France; less of each in England, where 'the mild government' has not enforced them rigorously. He notes that as applied to 'the lower ranks of people' they are 'direct taxes on the wages of labour'. He sums up:] Capitation taxes are levied at little expense; and where they are rigorously exacted they provide a very sure revenue to the state. That is why they are very common in countries where the ease, comfort, and security of the lower ranks of people are little attended to. In general, however, only a small part of the public revenue of a large empire has ever come from such taxes; and the largest sum which they have

ever provided could always have been found in some other way much more convenient to the people.

(4b) Taxes on consumable commodities

The impossibility of taxing the people in proportion to their income by any capitation seems to have led to the invention of taxes on consumable commodities. The state, not knowing how to tax directly and proportionally the income of its subjects, tries to tax it indirectly by taxing their expenditure, which it is supposed will in most cases be nearly proportional to their income. This is done by taxing the consumable commodities on which their expenditure is laid out.

Consumable commodities are either necessities or luxuries.

By 'necessities' I understand not only the commodities that are indispensably necessary for the support of life but whatever the custom of the country makes it indecent for creditable [see Glossary] people, even of the lowest order, to be without. A linen shirt is not a necessity of life; the Greeks and Romans presumably lived very comfortably without having any linen. But through most of Europe these days a creditable day-labourer would be ashamed to appear in public without a linen shirt, the lack of which would be taken to indicate the disgraceful degree of poverty which (it is presumed) nobody can fall into without extreme bad conduct. In the same way custom has made leather shoes a necessity of life in England. The poorest creditable man or woman would be ashamed to appear in public without them. In Scotland, custom has made them a necessity of life for the lowest order of men, but not to the same order of women, who can without any discredit walk about barefooted. In France they are not necessities to men or to women; the lowest rank of both sexes appear there publicly, without any discredit, sometimes in wooden shoes and sometimes bare-

footed. Under 'necessities', therefore, I comprehend things that are necessary for the lowest rank of people, being made so either by nature or by the established rules of decency. All other things I call 'luxuries', without meaning this to throw the smallest degree of reproach on the temperate use of them. I count beer and ale, for example, as luxuries in Great Britain; also wine, even in the wine countries. A man of any rank may without any reproach abstain totally from such liquors. Nature does not make them necessary for the support of life, and custom nowhere makes it indecent to live without them.

... A tax on the necessities of life operates in exactly the same way as a direct tax on the wages of labour. Though the labourer may pay it out of his hand, he cannot for any considerable time be properly said even to advance it. It must always in the long run be advanced to him by his immediate employer. ... If he is a manufacturer the employer will raise the price of his goods to meet the rise of wages required by the tax, together with a profit, so that the final payment of the tax (together with this overcharge) will fall on the consumer. If the employer is a farmer, the final payment (together with a like overcharge) will fall on the rent of the landlord.

It is different with taxes on what I call luxuries, even on those of the poor. The rise in the price of the taxed commodities will not necessarily cause any rise in the wages of labour. A tax on tobacco, though a luxury of the poor as well as of the rich, will not raise wages. Though it is taxed in England at three times its original price and in France at fifteen times that, those high duties seem to have no effect on the wages of labour. The same thing maybe said of the taxes on tea and sugar, which in England and Holland have become luxuries of the lowest ranks of people; and of those on chocolate, which is said to have become so in Spain. ...

The high price of such commodities does not necessarily diminish the ability of the lower ranks of people to bring up families. For the sober and industrious poor, taxes on such commodities act as sumptuary [see Glossary] laws, disposing them to moderate or to refrain altogether from the use of superfluities that they can no longer easily afford. Because of this forced frugality, their ability to bring up families may often be *increased* by the tax. It is the sober and industrious poor who generally bring up the most numerous families, and who principally supply the demand for useful labour. The poor are indeed not all sober and industrious; and the dissolute and disorderly might continue to over-use such commodities after this rise of price in the same manner as before, without regarding the distress this indulgence might bring on their families. But such disorderly persons seldom raise numerous families because their children generally perish from neglect, mismanagement, and the scantiness or unwholesomeness of their food. If by the strength of their constitution they survive the hardships the bad conduct of their parents exposes them to, the example of that bad conduct commonly corrupts their morals; so that instead of being useful to society by their industry they become public nuisances by their vices and disorders. Though the advanced price of the luxuries of the poor, therefore, might increase somewhat the distress of such disorderly families, and thereby diminish somewhat their ability to bring up children, it probably would not diminish much the useful population of the country.

Any rise in the average price of necessities, unless it is made up for by a proportional rise in the wages of labour, is bound to lessen the ability of the poor to bring up large families, and (consequently) to supply the demand for useful labour. . . .

Taxes on luxuries have no tendency to raise the price of any *other* commodities; taxes on necessities necessarily tend, by raising the wages of labour, to raise the price of all manufactures, and consequently to diminish the extent of their sale and consumption. Taxes on luxuries are finally paid by the consumers of the commodities taxed, without any retribution [see Glossary]. They fall indiscriminately on every kind of income—the wages of labour, the profits of stock, and the rent of land. Taxes on necessities, so far as they affect the labouring poor, are finally paid partly •by landlords in the diminished rent of their lands and partly by •rich consumers. . . .in the higher price of manufactured goods; and always with a considerable overcharge. The raised price of manufactures that are real necessities of life and are destined for the consumption of the poor (coarse woollens, for example) must be compensated for to the poor by a further rise in their wages. The middling and higher ranks of people, if they understood their own interests, ought always to oppose all taxes on the necessities of life as well as all taxes on the wages of labour. The final payment of each falls entirely on themselves, and always with a considerable overcharge. They fall heaviest on the landlords, who always pay in a double capacity: as landlords, by the reduction of their rent; as rich consumers, by the increase of their expense. Sir Matthew Decker remarked that certain taxes are sometimes repeated and accumulated four or five times in the price of certain goods, and this is perfectly right as applied to taxes on the necessities of life. In the price of leather you must pay not only for

- the tax on the leather of your own shoes, but for
- a part of the tax on the shoes of the shoemaker and the tanner; also for
- the tax on the salt, soap, and candles that those workmen consume while employed in your service;

and for

- the tax on the leather that the salt-maker, the soap-maker, and the candle-maker consume while employed in their service.

In Great Britain, the principal taxes on the necessities of life are on the four commodities just mentioned—salt, leather, soap, and candles.

Salt is a very ancient and very universal subject of taxation. It was taxed among the Romans, and is taxed today, I believe, in every part of Europe. The amount annually consumed by any individual is so small, and can be purchased so gradually, that it seems to have been thought that nobody could feel even a pretty heavy tax on it. In England it is taxed at 3/4d a bushel—about three times its original price. In some other countries, the tax is still higher. Leather is a real necessity of life. The use of linen makes soap such. In countries where the winter nights are long, candles are a necessary instrument of trade. Leather and soap are taxed in Great Britain at 1½d a pound; candles at 1d; taxes which amount to about 9% on the original price of leather, about 22% on that of soap, and about 14% on that of candles. Though lighter than the tax on salt, these are still very heavy. As all those four commodities are real necessities of life, such heavy taxes on them must increase somewhat the expenses of the sober and industrious poor, and must consequently raise the wages of their labour.

In a country where the winters are as cold as in Great Britain, fuel is during winter in the strictest sense of the word a *necessity* of life, not only for cooking food but for the comfortable subsistence of many sorts of workmen who work within doors; and coal is the cheapest fuel. The price of fuel has such a large effect on the cost of labour that all over Great Britain manufactures have confined themselves principally to the coal counties. . . . If a **bounty** could ever be

reasonable, it might be so on the transport of coal from the parts of the country where there is plenty of coal to those in which there is not. But the legislature has instead imposed a **tax** of 3/3d a ton on coal carried along the coast, which on most sorts of coal is more than 60% of the original price at the coal pit. Coal carried by land or on canals pays no duty. Where it is naturally cheap, coal is consumed duty free; where it is naturally dear, it is burdened with a heavy duty.

Though such taxes raise the price of subsistence and consequently the wages of labour, they provide government with a considerable revenue that it might not be easy to find in any other way; so there may be good reasons for continuing them. [Smith contrasts this with the bounty on the export of corn, high duties on the import of foreign corn, and the prohibition of the import of live cattle or salt provisions, all of which he says do harm and produce no revenue.]

[Smith now writes about the disastrously high taxes on flour and meal in some countries, and reports that] a French author of some note has proposed to reform the finances of his country by replacing most other taxes by this most ruinous of all taxes. There is nothing so absurd, says Cicero, that it has not sometimes been asserted by some philosophers.

Taxes on butcher's meat are still more common than those on bread. It may indeed be doubted whether butcher's meat is anywhere a necessity of life. It is known from experience that grain and other vegetables—with the help of milk, cheese, and butter (or, failing butter, oil)—can without any butcher's meat provide the most plentiful, wholesome, nourishing, and invigorating diet. Decency nowhere requires that any man should eat butcher's meat, as it in most places requires that he should wear a linen shirt or leather shoes.

Consumable commodities, whether necessities or luxuries, can be taxed in two ways. **(a)** In one, the consumer pays an annual sum on account of his using or consuming goods of a certain kind; **(b)** in the other, the goods are taxed before they pass from the dealer to the consumer. Consumable goods that last a considerable time before they are consumed altogether are most properly taxed in manner **(a)**; those of which the consumption is either immediate or more speedy in manner **(b)**. Taxes on coaches and plate are examples of **(a)**; most of the other duties of excise and customs are examples of **(b)**.

A coach may last ten years. It might be taxed once for all before it leaves the coach-maker; but it is more convenient for the buyer to pay £4 a year for the privilege of keeping a coach than to pay the coach-maker an additional £40 all at once. . . . A service of plate may last more than a century. It is certainly easier for the consumer to pay 5/- a year for every 100oz of plate—near 1% of the value—than to redeem this long annuity at 25 years purchase, which would enhance the price at least 25%. The taxes that affect houses are more conveniently paid by moderate annual payments than by a heavy tax of equal value on the first building or sale of the house.

Sir Matthew Decker made a well-known proposal that all commodities, even those of which the consumption is either immediate or speedy, should be taxed in manner **(a)**—the dealer advancing nothing, and the consumer paying a certain annual sum for the licence to consume certain goods. The aim of this was to promote foreign trade, especially the carrying trade, by abolishing all duties on import and export, thereby enabling the merchant to employ his whole capital and credit in the purchase of goods and the freight of ships. . . . But it seems to be open to four objections.

(1) The tax would be unfair. The taxes on ale, wine, and spirituous liquors that are advanced by the dealers are finally paid by the consumers, exactly in proportion to their respective consumption. If the tax were paid by purchasing a licence to drink those liquors, the sober man would, in proportion to his consumption, be taxed much more heavily than the drunken one. . . .

(2) This mode of taxation—paying for an annual, half-yearly, or quarterly licence to consume certain goods—would greatly lessen one of the principal conveniences of taxes on goods of speedy consumption, namely the piecemeal payment. In the price of $3\frac{1}{2}d$ which is at present paid for a pot of porter, the taxes on malt, hops, and beer—together with the extra profit the brewer charges for having advanced them—amount perhaps to about $1\frac{1}{2}d$. If a workman can conveniently spare that he buys a pot of porter. If he cannot, he contents himself with a pint; and, as a penny saved is a penny earned, he thus gains $\frac{1}{4}d$ by his temperance. He pays the tax piecemeal, as he can afford to pay it and *when* he can afford to pay it; every act of payment is perfectly voluntary—something he can avoid if he chooses to do so.

(3) Such taxes would operate less as sumptuary laws. Once the licence was purchased, the purchaser's tax would be the same, however much or little he drank.

(4) If a workman had to pay all at once—by yearly, half-yearly, or quarterly payments—a tax equal to what he now pays with little or no inconvenience on all the pots and pints of porter that he drinks in any such period of time, the sum might often distress him very much.

So it seems obvious that this **(a)** mode of taxation could never without the most grievous oppression produce a revenue anywhere near what is derived from the present **(b)** mode without any oppression. . . .

[Smith now devotes about four pages to information, some of it historical, about ‘the duties of excise on goods of home product’ and ‘the duties of customs’ aimed at foreign imports. He is hostile to nearly all import duties, as burdensome, unprofitable, and monopolistic. Some remarks of his about smuggling are worth noting:]

High taxes, sometimes by lessening the consumption of the taxed commodities and sometimes by encouraging smuggling, often provide a smaller revenue to government than what might be drawn from more moderate taxes.

When the lessening of revenue is the effect of the lessening of consumption, the only remedy is to lower the tax. When it is the effect of the encouragement given to smuggling, it may be remedied either by lessening the temptation to smuggle or by increasing the difficulty of smuggling. The temptation to smuggle can be lessened only by lowering the tax; and the difficulty of smuggling can be increased only by establishing the system of administration that is most proper for preventing it.

Experience leads me to believe that the excise laws obstruct and embarrass the operations of the smuggler much more effectively than those of the customs. By introducing into the customs a system of administration as similar to that of the excise as the nature of the duties will admit, the difficulty of smuggling might be very much increased. Many people think that this alteration could easily be brought about.

·A SUGGESTION FOR AN IMPROVED SYSTEM OF CUSTOMS·

What has been proposed is a system in which the following is the case.

The importer of commodities liable to any duties of customs can choose between **(i)** taking them to his own private warehouse and **(ii)** storing them in a

warehouse, provided at his own expense or at that of the public, but under the key of the custom-house officer and never to be opened except in that officer’s presence. If he takes them to his own private warehouse, the duties are to be immediately paid and never afterwards refunded; and that warehouse is to be at all times subject to examination by the custom-house officer to ascertain how far the quantity contained in it corresponds with that for which the duty has been paid. If he takes them to the public warehouse, no duty is to be paid until they are taken out for home consumption. If they are taken out for export, they are to be duty-free, with proper care being taken that they really are so exported. . . .

What are called the excise duties on imported rum are at present levied in this manner; and the same system might be extended to all duties on imported goods, provided that those duties were—like the duties of excise—confined to a few sorts of goods of the most general use and consumption. If they were extended to almost all sorts of goods, as at present, large enough public warehouses could not easily be provided; and goods of a very delicate nature, or ones whose preservation required much care and attention, could not safely be trusted by the merchant in any warehouse but his own.

If by such a system of administration smuggling could be mostly prevented, even under pretty high duties; and if every duty was occasionally raised or lowered according as it was most likely to provide the greater revenue to the state (taxation always being employed as an instrument of revenue, and never of monopoly); it seems likely enough that a revenue at least equal to the present net revenue of the customs might be drawn from duties on the import of only a few sorts of goods of the most general use and consumption;

and that the duties of customs might thus be brought to the same degree of simplicity, certainty, and precision as those of excise. . . .

If by such a change of system the public revenue suffered no loss, the trade and manufactures of the country would certainly gain a considerable advantage. The trade in the commodities not taxed, by far the greatest number, would be perfectly free and could be carried on to and from all parts of the world with every possible advantage. [He explains the advantages, mainly repeating things said earlier.]

The famous excise scheme of Sir Robert Walpole was meant to establish, with regard to wine and tobacco, a system like the one proposed here. The bill brought into Parliament covered those two commodities only, but it was generally supposed to be intended as an introduction to a more extensive scheme of the same kind. Faction, combined with the interests of smuggling merchants, raised such a violent (though such an unjust) clamour against the bill that the minister thought proper to drop it; and, from a dread of exciting a clamour of the same kind none of his successors have dared to resume the project.

The duties on foreign luxuries imported for home consumption, though they sometimes fall on the poor, fall principally on people of middling or more than middling fortune—for example the duties on foreign wines, on coffee, chocolate, tea, sugar, etc.

The duties on the cheaper luxuries of home produce, destined for home consumption, fall pretty equally on people at all levels in proportion to their respective expenditures. The poor pay the duties on malt, hops, beer, and ale on their own consumption; the rich on both their own consumption and that of their servants.

In every country the whole consumption and the whole expenditure of the lower ranks of people—i.e. those below

the middling rank—is much greater in quantity and in value than that of the ranks above them. There are four strands in this fact. **(a)** Almost the whole capital of every country is annually distributed among the lower ranks of people, as the wages of productive labour. **(b)** A large part of the revenue arising from the rent of land and the profits of stock is annually distributed among the same rank, in the wages and maintenance of domestic servants and other unproductive labourers. **(c)** Some part of the profits of stock belongs to the same rank, as a revenue arising from the employment of their small amounts of capital. The amount of the profits annually made by small shopkeepers, tradesmen, and retailers of all kinds is everywhere very considerable and makes a very considerable portion of the annual product. **(d)** Some part even of the rent of land belongs to the same rank; a considerable part to those who are somewhat below the middling rank and a small part even of the lowest rank—some common labourers own an acre or two of land. The expenditure of those lower ranks of people, taking them individually, is very small; but the whole mass of it, taking them collectively, amounts to by far the largest portion of the whole expenditure of the society; what remains of the annual product of the land and labour of the country for the consumption of the higher ranks being always much less in quantity and in value. So the taxes on expenditure that fall chiefly on the expenditure of the higher ranks of people (and thus on the smaller portion of the annual product) are likely to be much less productive than those that fall indiscriminately on the expenditure of all ranks or even those that fall chiefly on that of the lower ranks. . . . Thus the excise on the materials and manufacture of home-made fermented and spirituous liquors is by far the most productive of all the taxes on expenditure; and this branch of the excise falls very much, perhaps principally, on the expenditure of the common people. In a recent year

the gross product of this branch of the excise amounted to nearly £3,342,000.

It must always be remembered, however, that only luxuries of the lower ranks of people ought ever to be taxed, and not their necessary expenditure. The final payment of any tax on their necessary expenditure would fall entirely on the higher ranks of people, and thus on the smaller portion of the annual product. Such a tax must •raise the wages of labour or •lessen the demand for it. If it raised the wages of labour it would throw the final payment of the tax on the higher ranks of people. If it lessened the demand for labour, that would lessen the annual product of the country's land and labour, the fund on which all taxes must be finally paid. Whatever might be the state to which a tax of this kind reduced the demand for labour, it must raise wages higher than they otherwise would be in that state; and the final payment of this enhancement of wages must always fall on the higher ranks of people.

Fermented liquors brewed, and spiritous liquors distilled, not for sale but for private use are not in Great Britain liable to any duties of excise. This exemption, intended to save private families from the odious visit and examination of the tax-gatherer, causes the burden of those duties to fall often much more lightly on the rich than on the poor. It is not indeed very common ·in towns· to distill for private use; but in the country many middling families and almost all rich and great ones brew their own beer. [He goes into details about how much cheaper home-brewed beer is for the rich than pub-bought beer is for the poor; and suggests a way in which this could be rectified, namely by taxing home-brewed beer—as malt is taxed—at a flat rate per person per year. He then embarks on several pages of numerical details about the tax on malt. A thread running through this is the claim that taxes on malt are harder to defeat—to

cheat by smuggling—than taxes on spirits. This leads to a suggested reform:]

By increasing the duties on malt, and reducing those on the distillery, both the opportunities and the temptation to smuggle would be diminished, which might lead to a still further increase of revenue.

It has for some time been the policy of Great Britain to discourage the consumption of spiritous liquors because of their supposed tendency to ruin the health and corrupt the morals of the common people. According to this policy, the taxes on the distillery ought not to be lessened enough to reduce the price of those liquors. Spirituous liquors might remain as dear as ever; while the wholesome and invigorating liquors of beer and ale might be considerably reduced in their price. The people might thus be in part relieved from one of the burdens they complain about the most; while the revenue might be considerably increased.

[Smith reports three objections that have been made to this suggested reform, and counters each. Then:] The only people likely to suffer by the change of system here proposed are those who brew for their own private use. But this higher rank's exemption from very heavy taxes that are paid by the poor labourer and artificer is surely most unjust and unfair; it ought to be taken away, even if the proposed reform never takes place. It has probably been the interest of this higher order of people that has so far prevented a change of system that would pretty certainly increase the revenue and relieve the people.

Besides such duties as those of custom and excise above mentioned, there are several others which affect the price of goods more unequally and more indirectly. [He describes and criticises some of these; briefly discusses the idea of luxury-taxes on someone whose income comes from one country while he lives in another; and then moves on to some

general points about taxes on luxuries:] Their great merit is that every man's contribution is altogether voluntary, it being entirely up to him whether does or does not consume the taxed commodity. **(i)** Where such taxes are properly assessed, and on proper commodities, they are paid with less grumbling than any other. When they are advanced by the merchant or manufacturer, the consumer who finally pays them soon comes to confound them with the price of the commodities and almost forgets that he pays any tax. **(ii)** Such taxes can be perfectly certain, being assessed so as to leave no doubt about what ought to be paid or when it ought to be paid. . . . Whatever uncertainty there may sometimes be in the duties of customs in Great Britain or other countries, it cannot arise from the nature of those duties, but from the inaccurate or unskilful wording of the law that imposes them. **(iii)** Taxes on luxuries generally are (and could always be) paid piecemeal, i.e. in proportion as the contributors have occasion to purchase the goods on which they are imposed. In the time and mode of payment, they are, or can be, of all taxes the most convenient.

On the whole, therefore, such taxes are perhaps as agreeable as any other to the general maxims **(i)–(iii)** concerning taxation [see page 224].

They offend in every respect against maxim **(iv)**. In proportion to what they bring into the public treasury of the state, such taxes always take (or keep) out of the pockets of the people more than almost any other taxes. They seem to do this in all the four ways in which it is possible to do it.

(1) The levying of such taxes, even when imposed in the most judicious manner, requires many custom-house and excise officers whose salaries and perquisites are a real tax on the people and bring nothing into the treasury of the state. This expense is admittedly more moderate in Great Britain than in most other countries. [He gives details, including

this: 'the perquisites of custom-house officers are everywhere much greater than their salaries', leading on to this thought:] The officers of excise receive few or no perquisites; and the administration of that branch of the revenue, being of more recent establishment, is in general less corrupted than that of the customs, into which length of time has introduced and authorised many abuses. . . .

(2) Such taxes inevitably create some obstruction or discouragement to certain branches of industry. As they always raise the price of the taxed commodity, they so far discourage its consumption and consequently its production. If it is a commodity of home growth or manufacture, less labour comes to be employed in raising and producing it. If it is a foreign commodity, the commodities of the same kind that are made at home may gain some advantage in the home market, and more domestic industry may thereby be turned towards preparing them. But though this rise of price in a foreign commodity may encourage domestic industry in one particular branch, it necessarily discourages that industry in almost every other. The dearer the Birmingham manufacturer buys his foreign wine, the cheaper he necessarily sells that part of his hardware with the price of which he buys it. So that part of his hardware becomes of less value to him, and he has less encouragement to work at it. The dearer the consumers in one country pay for the surplus product of another, the cheaper they sell that part of their own surplus product with the price of which, they buy it. That part of their own surplus product becomes of less value to them, and they have less encouragement to increase its quantity. So all taxes on consumable commodities tend to reduce the quantity of productive labour below what it otherwise would be, . . . and to alter somewhat the natural direction of national industry, turning it into a channel always different from and usually less advantageous than that in which it

would have run of its own accord.

(3) The hope of evading such taxes by smuggling often leads to forfeitures and other penalties that entirely ruin the smuggler. Though he is no doubt highly blameable for violating the laws of his country, he is often incapable of violating the laws of natural justice, and would have been in every way an excellent citizen if the laws of his country had not made into a crime something that nature never meant to be so. . . . Not many people are scrupulous about smuggling when they can find an easy and safe opportunity of smuggling without committing perjury. Though buying smuggled goods is a clear encouragement to the violation of the revenue laws and to the perjury that almost always goes with it, claiming to have any scruple about doing it would in most countries be regarded as one of those pedantic pieces of hypocrisy that serve only to expose the person to the suspicion of being a greater knave than most of his neighbours. By this indulgence of the public, the smuggler is often encouraged to continue a trade which he is thus taught to consider as in some measure innocent; and when the severity of the revenue laws is ready to fall on him, he is often disposed to defend with violence what he has been accustomed to regard as his just property. Starting by being imprudent rather than criminal, he too often eventually becomes one of the hardest and most determined violators of the laws of society. . . .

(4) Such taxes subject the dealers in the taxed commodities to the frequent visits and odious examination of the tax-gatherers, exposing them sometimes to some degree of oppression and always to much trouble and vexation. I have already remarked that vexation is not strictly speaking expense, but it is certainly equivalent to the expense at which every man would be willing to redeem himself from it. . . .

But the inconveniences that may be in some degree inseparable from taxes on consumable commodities fall as lightly on the people of Great Britain as on those of any other country whose government has comparable expenses. Our state is not perfect and might be mended; but it is as good as, or better than, that of most of our neighbours.

[Smith ends this vast chapter with about eight pages on various taxes and duties in other European countries, all of which he thinks are much less well served in this respect than is Great Britain. His criticisms of them mainly focus on •the number of different commodities that are taxed, •duties on the movement of commodities from place to place within a single country, and •the use of tax-farmers, i.e. private businesses that collect taxes on behalf of the government.]

Chapter 3: Public debts

I have tried to show in Book III that in the rude [see Glossary] state of society that precedes the extension of commerce and the improvement of manufactures, . . . the only way a person who has a large income can spend or enjoy it is maintaining nearly as many people as it can maintain. A large income can be said to consist at all times in the command of a large quantity of the necessities of life. In that rude state of things, it is commonly paid in a large quantity of those necessities—the materials of plain food and coarse clothing, corn and cattle, wool and raw hides. When neither commerce nor manufactures provide anything for which the owner can exchange the materials that are over and above his own consumption, all he can do with the surplus is to feed and clothe nearly as many people as it will feed and clothe. In the rude state of society the principal expenses of the rich and the great are •hospitality in which there is no luxury and •liberality in which there is no ostentation; and these. . . .are

expenses by which people are not very apt to ruin themselves. . . . Among our feudal ancestors, the long time during which estates used to continue in the same family sufficiently demonstrates people's general disposition to live within their income. Whatever we think about the rustic hospitality constantly exercised by the great landholders, . . . we must grant that they were at least frugal enough not to spend their whole income. They could usually sell some of their wool and raw hides for money, some of which might be spent in purchasing the few objects of vanity and luxury that were then available; but they seem commonly to have hoarded some of it. What else could they do with whatever money they saved? To trade was disgraceful to a gentleman; and to lend money at interest ('usury') was at that time prohibited by law. Also, in those times of violence and disorder it was convenient to have a hoard of money at hand, so that if they were driven from their own home they might have something of known value to carry with them to a place of safety. The violence that made it convenient to hoard made it equally convenient to conceal the hoard. The frequency of treasure-trove of which no owner was known sufficiently demonstrates the frequency in those times of hoarding and of concealing the hoard. Treasure-trove was *then* considered as an important part of the sovereign's revenue; whereas *now* all the treasure-trove of the kingdom would hardly be an important part of the income of a private gentleman of a good estate.

The disposition to save and to hoard prevailed in the sovereign as well as in his subjects. As I said in Book IV, the sovereign of a nation to which commerce and manufacture are little known is in a situation that naturally disposes him to the parsimony needed for accumulation. In that situation, the expense even of a sovereign cannot be directed by the vanity that delights in the gaudy finery of a court. The

ignorance of the times provides few of the trinkets in which that finery consists. Standing armies are not then necessary; so that the expense of a sovereign, like that of any other great lord, can hardly be employed in anything but bounty to his tenants and hospitality to his retainers. But bounty and hospitality seldom lead to extravagance, though vanity almost always does. . . .

In a commercial country abounding with every sort of expensive luxury, the sovereign—like nearly all the great proprietors in his dominions—naturally spends much of his revenue in purchasing those luxuries. His country and its neighbours supply him abundantly with all the costly trinkets that compose the splendid but insignificant pageantry of a court. For the sake of lesser pageantry of the same kind, his nobles dismiss their retainers, make their tenants independent, and gradually become, themselves, as insignificant as most of the wealthy burghers in his dominions. The same frivolous passions which influence their conduct influence his. How can it be supposed that he should be the only rich man in his dominions who is insensible to pleasures of this kind? If he does not spend so much on those pleasures that he weakens the defensive power of the state (which it is very likely that he *will* do), he can hardly be expected not to spend on them all of his revenue except what is needed for defensive purposes. His ordinary expense becomes equal to his ordinary revenue, and it is well if it does not often exceed it. The amassing of treasure can no longer be expected; and when special needs require special expenditure he must call on his subjects for special aid. The present and the late king of Prussia are the only great princes of Europe, who since the death of Henry IV of France in 1610 are supposed to have amassed any considerable treasure. The parsimony that leads to accumulation has become almost as rare in republican as in

monarchical governments. The Italian republics, the United Provinces of the Netherlands, are all in debt. The canton of Berne is the only republic in Europe that has amassed any considerable treasure. The other Swiss republics have not. The taste for some sort of pageantry—for splendid buildings at least, and other public ornaments—often prevails as much in the apparently sober senate-house of a little republic as in the dissipated court of the greatest king.

Lack of parsimony in time of peace makes it necessary to go into debt in time of war. When war comes, there is no money in the treasury except what is needed for carrying on the ordinary expense of the peace establishment. In war, an establishment of three or four times that expense becomes necessary for the defence of the state, and consequently a revenue three or four times larger than the peace revenue is needed. Even if the sovereign has (as he hardly ever does) the immediate means of increasing his revenue to match the increase of his expenditure, this increase must come from taxes, and there will be a delay—perhaps ten or twelve months—before it begins to come into the treasury. But the moment war appears likely to begin, the army must be increased, the fleet must be fitted out, the garrisoned towns must be put into a posture of defence; that army, that fleet, those garrisoned towns, must be provided with arms, ammunition, and provisions; and all this cannot wait for the gradual and slow returns of the new taxes. In this emergency government has to borrow.

The same commercial state of society that (by the operation of moral [here = 'psychological'] causes) brings government in this manner into the necessity to borrow produces in the subjects both an ability and an inclination to lend. . . .

A country abounding with merchants and manufacturers necessarily abounds with a set of people through whose hands their own capital *and* the capital of all those who

lend them money or trust them with goods pass at least as often as the income of a private man who lives on his income without trade or business passes through *his* hands. The income of such a man can regularly pass through his hands only once in a year. But the whole amount of the capital and credit of a merchant who deals in a trade of which the returns are very quick may sometimes pass through his hands up to four times in a year. A country abounding with merchants and manufacturers, therefore, necessarily abounds with a set of people who at all times have it in their power to advance a large sum of money to government. Hence the ability in the subjects of a commercial state to lend.

Commerce and manufactures can seldom flourish long in any state where

- there is not a regular administration of justice,
- the people do not feel themselves secure in the possession of their property,
- the faith of contracts is not supported by law, and
- the authority of the state is not supposed to be regularly employed in enforcing the payment of debts by all who can pay.

Commerce and manufactures, in short, can seldom flourish in any state where there is not a certain degree of confidence in the justice of government. The same confidence that disposes great merchants and manufacturers on ordinary occasions to trust a government to *protect* their property also disposes them on extraordinary occasions to trust that government with the *use* of their property. By lending money to government they do not lessen their ability to carry on their trade and manufactures; on the contrary, they commonly increase it. The needs of the state usually make government willing to borrow on terms extremely advantageous to the lender. The security it grants to the original creditor is

made transferable to any other creditor; and because of the universal confidence in the justice of the state, that security generally sells in the market for more than was originally paid for it. The merchant or moneyed man makes money by lending money to government, thus increasing his trading capital. So he generally considers it as a favour when the administration admits him to a share in the first subscription for a new loan. Hence the inclination or willingness in the subjects of a commercial state to lend.

The government of such a state is very apt to rely on this ability and willingness of its subjects to lend it their money on special occasions. It foresees the ease of borrowing, and therefore dispenses itself from the duty of saving.

[Smith then explains why ‘in a rude state of society’ few people *could* and no sensible person *would* lend to government.]

The growth of the enormous debts that at present oppress all the large nations of Europe, and in the long run will probably ruin them, has been pretty uniform. Nations, like private men, have generally begun to borrow on **(a)** what may be called personal credit, without assigning or mortgaging any particular fund for the payment of the debt; and when this resource has failed them they have gone on to borrow on **(b)** assignments or mortgages of particular funds.

The so-called ‘unfunded debt’ of Great Britain is contracted in manner **(a)**. It consists partly in a debt that is supposed to bear no interest, and resembles the debts that a private man contracts on account; and partly in a debt that bears interest, and resembles what a private man contracts on his bill or promissory-note. [Smith now gives a very technical recital of details. Then:]

When **(a)** this resource is exhausted, and money has to be raised by **(b)** assigning or mortgaging some particular branch of the public revenue for the payment of the debt,

government has at different times done this in two ways: by making this assignment or mortgage

- for a short period of time only, e.g. a year or a few years, the fund being supposed sufficient to pay within that time both principal and interest. or
- for perpetuity, the fund being supposed sufficient to pay only the interest (or a perpetual annuity equivalent to it), with government being free to stop this at any time by paying back the principal.

Technical terms: money raised in the former way was raised by **anticipation**; money raised in the other way was raised by **perpetual funding**.

In Great Britain the annual land and malt taxes are anticipated every year by virtue of a borrowing clause constantly inserted into the acts that impose them. The bank of England generally advances at interest. . . .the sums of which those taxes are granted, and receives payment as their product gradually comes in. There is always a deficiency, which is provided for in the supplies of the following year. Thus, the only considerable branch of the public revenue that is still unmortgaged is regularly spent before it comes in. Like an improvident spendthrift whose pressing needs will not allow him to wait for the regular payment of his income, the state constantly borrows from its own factors and agents, paying interest for the use of its own money.

In the reign of King William and through much of Queen Anne’s, before we had become as familiar as we are now with the practice of perpetual funding, most new taxes were imposed for only a short period of time (from four to seven years), and many of the grants of every year consisted in loans on anticipations of the product of those taxes. Because the product was often insufficient for paying within the limited term the principal and interest of the money borrowed, deficiencies arose; and to deal with these it became necessary

to prolong the term.

[Smith devotes more than a page to details of successive lengthenings through 1711–1717 of the term, creating new ‘anticipations’ to pay off old ones, culminating in the change of many of these always-failing ‘anticipation’ borrowings to the ‘perpetual’ status in which only the interest was to be paid.]

If money had never been raised other than by anticipation, the course of a few years would have liberated the public revenue, with no attention from government besides except that of •not overloading the fund by charging it with more debt than it could pay within the limited term, and •not of anticipating a second time before the expiration of the first anticipation. But most European governments have been incapable of those attentions. They have often overloaded the fund even on the first anticipation; and when they didn’t, they have generally taken care to overload it—by anticipating a second and a third time—before the expiration of the first anticipation. [The phrase ‘taken care’ is meant sarcastically.] The fund becoming in this way insufficient for paying both principal and interest, it became necessary to charge it with only the interest (or a perpetual annuity equal to it); and such spendthrift anticipations necessarily led to the more ruinous practice of perpetual funding. But though this practice necessarily puts off the liberation of the public revenue from a fixed period to one so indefinite that it is not very likely ever to arrive, more money can always be raised by this new practice than by the old one of anticipation; so the new one, once men have become familiar with it, has been universally preferred to the other as a way of dealing with the great needs of the state. Those immediately concerned in the administration of public affairs always focus on the present need; they leave the future liberation of the public revenue to the care of posterity.

During the reign of Queen Anne, the market rate of interest had fallen from 6% to 5%, and in the twelfth year of her reign 5% was declared to be the highest rate that could lawfully be taken for money borrowed on private security. [Smith goes into some rather technical details of a sequence of events in which a public fund from which public debts are to be paid grows larger through successive reductions in the interest rate. A little oddly, this ever-growing fund was called the **sinking fund**.]

A sinking fund, though instituted for the payment of old debts greatly facilitates the contracting of new ones. It is a subsidiary fund, always at hand, to be mortgaged in aid of any other doubtful fund on which money is proposed to be raised in any exigency of the state. Whether the sinking fund of Great Britain has been more often applied to the one or to other of those two purposes will sufficiently appear in due course.

Besides those two methods of borrowing, by anticipations and by a perpetual funding, there are two other methods that hold a sort of middle place between them: •borrowing on annuities for terms of years and •borrowing on annuities for lives. [Smith offers a couple of pages about these. Then:]

Because the ordinary peacetime expenditure of most modern governments is roughly equal to their ordinary revenue, when war comes they are unwilling and unable to increase their revenue in proportion to the increase of their expenses: unwilling for fear of offending the people, who would soon be disgusted with the war if there were a large and sudden increase of taxes; and unable because they don’t know what taxes would be sufficient to produce the needed revenue. The ease of borrowing delivers them from the embarrassment that this fear and inability would otherwise cause. Borrowing enables them with a very moderate increase of taxes to raise, from year to year, enough money to carry on the war; and

perpetual funding enables them with the smallest possible increase of taxes to raise annually the largest possible sum of money. In large empires, many of the people who live in the capital city and in provinces remote from the scene of action feel hardly any inconvenience from the war, but enjoy at their ease the pastime of reading in the newspapers the exploits of their own fleets and armies. To them this pastime compensates for the small difference between the taxes they pay on account of the war and their usual peacetime taxes. They are commonly dissatisfied with the return of peace, which puts an end to their pastime and to a thousand visionary hopes of conquest and national glory from a longer continuance of the war.

The return of peace, indeed, seldom relieves them from most of the taxes imposed during the war. These are mortgaged for the interest of the debt contracted, in order to carry it on. If the old revenue together with the new taxes produce some surplus revenue—over and above paying the interest of this debt and defraying the ordinary expense of government—it *can* be converted into a sinking fund for paying off the debt. But **(i)** this sinking fund, even if applied to no other purpose, is generally quite inadequate for paying, in the course of any period during which it can reasonably be expected that peace should continue, the whole debt contracted during the war; and **(ii)** this sinking fund is almost always applied to other purposes. . . .

During the most profound peace various events occur that require an extraordinary expense; and government always finds it more convenient to meet this expense by misapplying the sinking fund than by imposing a new tax. Every new tax is immediately somewhat felt by the people. It always creates some murmur and meets with some opposition. The more taxes have been multiplied and the higher they have been raised on every subject of taxation, the more loudly the

people complain of every new tax; and the more difficult it becomes to find new subjects of taxation or to raise much higher the taxes already imposed on the old. A momentary suspension of the payment of debt is not immediately felt by the people, and generates neither murmur nor complaint. Borrowing from the sinking fund is always an obvious and easy way out of the present difficulty. The more the public debts have been accumulated and the more necessary it is to work to reduce them, the more ruinous it is to misapply any part of the sinking fund; the less likely the public debt is to be reduced to any considerable degree, the more likely it is that the sinking fund will be misapplied to defraying the extraordinary expenses that occur in time of peace. When a nation is already overburdened with taxes, nothing but

- the necessities of a new war,
- the animosity of national vengeance, or
- the anxiety for national security,

can induce the people to submit with tolerable patience to a new tax. Hence the usual misapplication of the sinking fund.

In Great Britain, from the time that we first had recourse to the ruinous expedient of perpetual funding, the reduction of the public debt in peacetime has been out of all proportion to its growth in time of war. The foundation of the present enormous debt of Great Britain was first laid in the war that began in 1668 and was ended by the treaty of Ryswick in 1697. [Smith spends several pages of details about the subsequent further growth of the British debt, and justifying his opposition to it. One episode in the justification is this:]

In the payment of the interest of the public debt, it has been said, the right hand pays the left: the money does not go out of the country; it is only a part of the revenue of one set of inhabitants that is transferred to another, and the nation is not a farthing poorer. This defence is

entirely based on the sophistry of the mercantile system; and after my long examination of that system ·in Book IV, chapter 1· it may be unnecessary to say anything more about it. Anyway, it supposes that the whole public debt is owed to the inhabitants of the country, which happens not to be true; the Dutch and several other foreign nations have a very considerable share in our public funds.

But even if the whole debt were owed to the inhabitants of the country, that would not make it less pernicious. [Smith now embarks on his perhaps-‘unnecessary’ explanation of what is wrong with the mercantile system’s defence of public debt.]

Land and capital stock are the two original sources of all private and public revenue. Capital stock pays the wages of productive labour in agriculture, manufactures, and commerce. The management of those two original sources of revenue belongs to two sets of people: the proprietors of land and the owners or employers of capital stock.

The proprietor of **land** is interested. . . .to keep his estate in as good a condition as he can. . . . His income may be so much diminished by different duties on the necessities and conveniences of life. . . .that he may find himself altogether unable to make or maintain those expensive improvements. And when the landlord ceases to do his part, it is impossible for the tenant to continue to do his. As the landlord’s distress increases, the country’s agriculture inevitably declines.

When the owners and employers of capital **stock** find that the income they derive from it will not in a particular country—because of its different taxes on the necessities and conveniences of life—purchase as much of those necessities and conveniences as an equal income would purchase in almost any other country, they will be disposed to move abroad. And when. . . .most of the employers of large amounts of capital come to be continually exposed to the mortifying and vexatious visits of the tax-gatherers, this

disposition to move will soon become an actual emigration. The country’s industry will inevitably fall with the removal of the capital that supported it, and the ruin of trade and manufactures will follow the decline of agriculture.

To transfer from the owners of those two great sources of income (**land** and capital **stock**) most of the income arising from either, transferring it from

- the persons immediately interested in the good condition of every particular portion of land, and in the good management of every particular portion of capital stock, to
- another set of persons, the creditors of the public, who have no such particular interest

must eventually lead to the neglect of land and the waste or removal of capital stock. No doubt a creditor of the public has a general interest in the prosperity of the agriculture, manufactures, and commerce of the country, and consequently in the good condition of its land and the good management of its capital stock. Should there be any general failure or decline in any of these things, the product of the different taxes might no longer be sufficient to pay him the annuity or interest that is due to him. But a creditor of the public, considered merely as such, has no interest in the good condition of any particular portion of land, or in the good management of any particular portion of capital stock. As a creditor of the public he has no knowledge of any such particular portion. He has no inspection of it. He can have no care about it. Its ruin may in some cases be unknown to him and cannot directly affect him.

[Smith writes about various European countries that have been ‘enfeebled’ by debt. Great Britain has fared better, he admits, but ‘it ought to be remembered that when the wisest government has exhausted all the proper subjects of taxation, it must in cases of urgent necessity resort to improper ones’,

and also:] Although Great Britain seems to support with ease a burden which 50 years ago no-one believed her capable of supporting, let us not rashly infer that she is capable of supporting any burden; nor even be too confident that she could support without great distress a burden a little larger than what has already been laid on her.

When national debts have once grown to a certain size there is I believe hardly a single instance of their being fairly and completely paid. Freeing the public revenue from debt, if it has ever been brought about at all, has always been brought about by a bankruptcy—sometimes an avowed one, often a bankruptcy in the form of a pretended payment.

[Smith writes about ‘the most usual’ way of disguising a bankruptcy as a payment, namely by ‘raising the denomination of the coin’, e.g. announcing that the coin which has until now counted as 6d is from now on to count as 1/- . Though deplorable, he says, this conduct is at least open, unlike the alternative procedure of debasing the coinage, e.g. taking £100 in silver, melting it down, mixing it with base metal, and minting the result into coins valued at £200. This practice goes back as far as Rome at the time of the Punic wars. Sometimes, as under Henry VIII, both procedures have been used at once.]

It seems altogether in vain to expect that the public revenue of Great Britain can ever be completely freed from debt—or even that any considerable progress can ever be made towards that liberation—while the surplus of that revenue, i.e. what is left after defraying the annual expense of the peace establishment, is so very small. Obviously the liberation can never be brought about without some considerable increase of the public revenue or some equally considerable reduction of the public expense.

A considerable increase of revenue might be produced by a more equal land tax, a more equal tax on the rent of houses,

and alterations in the present system of customs and excise such as those I mentioned in the foregoing chapter; this might be done without increasing the burden on most of the people, merely distributing the weight of it more equally. But no-one could think that any increase of this kind would have any chance of liberating the public revenue or even of making enough progress towards that liberation in time of peace to prevent or make up for the further accumulation of the public debt in the next war.

By extending the British system of taxation to all the provinces of the empire inhabited by people of British or European extraction, a much greater increase of revenue might be expected. This could hardly be done consistently with the principles of the British constitution without admitting into the British parliament. . . . a fair and equal representation of all those provinces. . . . The private interests of many powerful individuals and the confirmed prejudices of great bodies of people seem to put in the way of such a great change obstacles that may be hard and perhaps altogether impossible to surmount. [Smith announces that he will however discuss how taxation of the colonies might be effected, this being a theoretical question that interests him. After several pages of that, he moves on to a linked set of practical (not merely theoretical) topics:

- how various colonies manage their own public debt,
- the advantages for them of paper money,
- their payments for goods purchased from Great Britain, including
 - the irregularity of some of those payments,
 - the incompleteness of some of them, and
 - the use of commodities (rather than any sort of money) to pay many of them.

With all this behind him, Smith returns to the topic of Great Britain’s public debt.]

It is not **contrary to justice** that Ireland and America should contribute towards the discharge of the public debt of Great Britain. That debt has been contracted in support of the government established by the Revolution [see Glossary], a government to which the protestants of Ireland owe the whole authority they at present enjoy in their own country *and* every security they possess for their liberty, their property, and their religion; a government to which several of the American colonies owe their present charters and thus their present constitution, and to which all of them owe the liberty, security, and property they have enjoyed ever since. That public debt has been contracted in the defence not only of Great Britain but of all the provinces of the empire. The immense debt contracted in recent war and a great part of that contracted in the war before that were both properly contracted in defence of America.

·Nor does it have to be **impossible in practice** for them to do so; the obstacles would disappear if Ireland and the American colonies united with the mother country. By a union with Great Britain, Ireland would gain the freedom of trade and other much more important advantages that would more than make up for any increase of taxes that might accompany that union. By the union with England, the middling and lower ranks of people in Scotland gained a complete deliverance from the power of an aristocracy that had always before oppressed them. By a union with Great Britain, most of people of all ranks in Ireland would gain an equally complete deliverance from a much more oppressive aristocracy; an aristocracy founded not like Scotland's on the natural and respectable distinctions of birth and fortune but on the most odious of all distinctions, those of religious and political prejudices—distinctions which, more than any other, animate both the insolence of the oppressors and the hatred and indignation of the oppressed, commonly making

the inhabitants of the same country more hostile to one another than those of different countries ever are. Without a union with Great Britain, the inhabitants of Ireland are not likely for many ages to consider themselves as one people.

No oppressive aristocracy has ever prevailed in the colonies, but even they would, in point of happiness and tranquillity, gain considerably by a union with Great Britain. Union would at least deliver them from the rancorous and virulent factions that are inseparable from small democracies and have so often divided the affections of their people, disturbing the tranquillity of their governments that are in their form so nearly democratic. If there is a total separation from Great Britain, which seems likely unless prevented by a union of this kind, those factions will be ten times more virulent than ever. Before the start of the present disturbances, the coercive power of the mother country had always been able to restrain those factions from breaking out into anything worse than gross brutality [here = 'behaving like animals'] and insult. If that coercive power is entirely taken away, they will probably soon break out into open violence and bloodshed. In all large countries that are united under one uniform government, the spirit of party commonly prevails less in the remote provinces than in the centre of the empire. The distance of those provinces from the capital—from the principal seat of the great scramble of faction and ambition—makes them enter less into the views of any of the contending parties, and makes them more neutral and impartial spectators of the conduct of all. The spirit of party prevails less in Scotland than in England. In the case of a union, it would probably prevail less in Ireland than in Scotland; and the colonies would probably soon enjoy a degree of concord and unanimity, at present unknown in any part of the British empire. Both Ireland and the colonies, indeed, would be subjected to heavier taxes

than any they now pay. Through a diligent and faithful application of the public revenue to the discharge of the national debt, however, most of those taxes might not go on for long, and the public revenue of Great Britain might soon be reduced to what was necessary for maintaining a moderate peacetime establishment.

The territorial acquisitions of the East India Company. . . might be made another source of revenue, possibly more abundant than all those already mentioned. . . .

If it should be found impracticable for Great Britain to draw any considerable increase of revenue from any of the resources above mentioned, the only resource remaining to her is a lessening of her expenses. In the mode of collecting and of spending the public revenue, though in both there may be still room for improvement, Great Britain seems to be at least as thrifty as any of her neighbours. The military establishment she maintains for her own defence in time of peace is more moderate than that of any European state that can claim to rival her in wealth or in power. So none of these articles seems to admit of any considerable reduction of expense. The expense of the peacetime establishment of the colonies was, before the start of the present disturbances, very considerable; it is an expense which can (and if no revenue can be drawn from them *ought to be*) saved altogether. This constant expense in time of peace, though very great, is insignificant in comparison with what the defence of the colonies has cost us in time of war. The recent war, which was undertaken altogether on account of the colonies, cost Great Britain upwards of £90,000,000. The Spanish war of 1739 was principally undertaken on their account; and in that war and the French war that it led to, Great Britain spent upwards of £40,000,000, a great part of which ought in fairness be charged to the colonies. In those two wars, the colonies cost Great Britain much more than double the

sum that the national debt amounted to before the start of the first of them. Had it not been for those wars, that debt probably would have been completely paid by now; and had it not been for the colonies, the earlier of those wars might not have been undertaken and the later one certainly would not. It was because the colonies were supposed to be provinces of the British Empire that this expense was laid out on them. But countries which contribute neither revenue nor military force towards the support of the empire cannot be considered as provinces. They may, perhaps, be considered as appendages, as a sort of splendid and showy equipage of the empire. But if the empire can no longer support the expense of keeping up this equipage, it ought certainly to lay it down. [Smith is here likening Britain's cutting loose from the American colonies to a wealthy gentleman's reducing the number of his footmen and the quality of his cutlery.] And if it cannot raise its revenue in proportion to its expense, it ought at least to accommodate its expense to its revenue. If the colonies, despite their refusal to submit to British taxes, are still to be considered as provinces of the British empire, their defence in some future war may cost Great Britain as great an expense as it ever has done in any former war. The rulers of Great Britain have, for more than a century past, entertained the people with the imagination that they possessed a great empire on the west side of the Atlantic. This empire, however, has hitherto existed in imagination only. It has hitherto been not an empire but the project of an empire; not a gold mine but the project of a gold mine; a project which has cost, which continues to cost, and which, if pursued in the same way as it has been hitherto, is likely to cost, immense expense, without being likely to bring any profit; for the effects of the monopoly of the colony trade, it has been shown, are to the great body of the people mere loss instead of profit. It is surely now time for our rulers to

relate differently to this golden dream in which they have been indulging themselves, perhaps, as well as the people; they should either

- make it come true or

- awake from it and try to awaken the people.

If the project cannot be completed, it ought to be given up. If any of the provinces of the British empire cannot be made

to contribute towards the support of the whole empire, it is surely time that Great Britain should free herself from the expense of defending those provinces in time of war, and of supporting any part of their civil or military establishment in time of peace; and endeavour to accommodate her future views and designs to the real mediocrity of her circumstances.