

ON THE PRINCIPLES OF POLITICAL ECONOMY AND TAXATION

David Ricardo



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Preface.

The produce of the earth—all that is derived from its surface by the united application of labour, machinery, and capital, is divided among three classes of the community; namely, the proprietor of the land, the owner of the stock or capital necessary for its cultivation, and the labourers by whose industry it is cultivated.

But in different stages of society, the proportions of the whole produce of the earth which will be allotted to each of these classes, under the names of rent, profit, and wages, will be essentially different; depending mainly on the actual fertility of the soil, on the accumulation of capital and population, and on the skill, ingenuity, and instruments employed in agriculture.

To determine the laws which regulate this distribution, is the principal problem in Political Economy: much as the science has been improved by the writings of Turgot, Stuart, Smith, Say, Sismondi, and others, they afford very little satisfactory information respecting the natural course of rent, profit, and wages.

In 1815, Mr Malthus, in his 'Inquiry into the Nature and Progress of Rent,' and a Fellow of University College, Oxford,' in his 'Essay on the Application of Capital to Land,' presented to the world, nearly at the same moment, the true doctrine of rent; without a knowledge of which, it is impossible to understand the effect of the progress of wealth on profits and wages, or to trace satisfactorily the influence of taxation on different classes of the community; particularly when the commodities taxed are the productions immediately derived from the surface of the earth. Adam Smith, and the other able writers to whom I have alluded, not having viewed correctly the principles of rent, have, it appears to me, overlooked

many important truths, which can only be discovered after the subject of rent is thoroughly understood.

To supply this deficiency, abilities are required of a far superior cast to any possessed by the writer of the following pages; yet, after having given to this subject his best consideration—after the aid which he has derived from the works of the above-mentioned eminent writers—and after the valuable experience which a few late years, abounding in facts, have yielded to the present generation—it will not, he trusts, be deemed presumptuous in him to state his opinions on the laws of profits and wages, and on the operation of taxes. If the principles which he deems correct, should be found to be so, it will be for others, more able than himself, to trace them to all their important consequences.

The writer, in combating received opinions, has found it necessary to advert more particularly to those passages in the writings of Adam Smith from which he sees reason to differ; but he hopes it will not, on that account, be suspected that he does not, in common with all those who acknowledge the importance of the science of Political Economy, participate in the admiration which the profound work of this celebrated author so justly excites.

The same remark may be applied to the excellent works of M. Say, who not only was the first, or among the first, of continental writers, who justly appreciated and applied the principles of Smith, and who has done more than all other continental writers taken together, to recommend the principles of that enlightened and beneficial system to the nations of Europe; but who has succeeded in placing the science in a more logical, and more instructive order; and has enriched it by several discussions, original, accurate, and profound.¹ The respect, however, which the author entertains for the writings of this gentleman, has not prevented him from commenting with that freedom which he thinks the interests of science require, on

such passages of the 'Economie Politique,' as appeared at variance with his own ideas.

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In this Edition I have endeavoured to explain more fully than in the last, my opinion on the difficult subject of VALUE, and for that purpose have made a few additions to the first chapter. I have also inserted a new chapter on the subject of MACHINERY, and on the effects of its improvement on the interests of the different classes of the State. In the chapter on the DISTINCTIVE PROPERTIES OF VALUE AND RICHES, I have examined the doctrines of M. Say on that important question, as amended in the fourth and last edition of his work. I have in the last chapter endeavoured to place in a stronger point of view than before, the doctrine of the ability of a country to pay additional money taxes, although the aggregate money value of the mass of its commodities should fall, in consequence either of the diminished quantity of labour required to produce its corn at home, by improvements in its husbandry, or from its obtaining a part of its corn at a cheaper price from abroad, by means of the exportation of its manufactured commodities. This consideration is of great importance, as it regards the question of the policy of leaving unrestricted the importation of foreign corn, particularly in a country burthened with a heavy fixed money taxation, the consequence of an immense National Debt. I have endeavoured to shew, that the ability to pay taxes, depends, not on the gross money value of the mass of commodities, nor on the net money value of the revenues of capitalists and landlords, but on the money value of each man's revenue, compared to the money value of the commodities which he usually consumes.

March 26, 1821.

Chapter 1. On Value.

"The value of a commodity, or the quantity of any other commodity for which it will exchange, depends on the relative quantity of labour which is necessary for its production, and not on the greater or less compensation which is paid for that labour."

It has been observed by Adam Smith, that 'the word Value has two different meanings, and sometimes expresses the utility of some particular object, and sometimes the power of purchasing other goods which the possession of that object conveys. The one may be called *value in use*; the other *value in exchange*. The things,' he continues, 'which have the greatest value in use, have frequently little or no value in exchange; and, on the contrary, those which have the greatest value in exchange, have little or no value in use; Water and air are abundantly useful; they are indeed indispensable to existence, yet, under ordinary circumstances, nothing can be obtained in exchange for them. Gold, on the contrary, though of little use compared with air or water, will exchange for a great quantity of other goods.

Utility then is not the measure of exchangeable value, although it is absolutely essential to it. If a commodity were in no way useful,—in other words, if it could in no way contribute to our gratification,—it would be destitute of exchangeable value, however scarce it might be, or whatever quantity of labour might be necessary to procure it.

Possessing utility, commodities derive their exchangeable value from two sources: from their scarcity, and from the quantity of labour required to obtain them.

There are some commodities, the value of which is determined

by their scarcity alone. No labour can increase the quantity of such goods, and therefore their value cannot be lowered by an increased supply. Some rare statues and pictures, scarce books and coins, wines of a peculiar quality, which can be made only from grapes grown on a particular soil, of which there is a very limited quantity, are all of this description. Their value is wholly independent of the quantity of labour originally necessary to produce them, and varies with the varying wealth and inclinations of those who are desirous to possess them.

These commodities, however, form a very small part of the mass of commodities daily exchanged in the market. By far the greatest part of those goods which are the objects of desire, are procured by labour, and they may be multiplied, not in one country alone, but in many, almost without any assignable limit, if we are disposed to bestow the labour necessary to obtain them.

In speaking then of commodities, of their exchangeable value, and of the laws which regulate their relative prices, we mean always such commodities only as can be increased in quantity by the exertion of human industry, and on the production of which competition operates without restraint.

In the early stages of society, the exchangeable value of these commodities, or the rule which determines how much of one shall be given in exchange for another, depends almost exclusively on the comparative quantity of labour expended on each.

‘The real price of every thing,’ says Adam Smith, ‘what every thing really costs to the man who wants to acquire it, is the toil and trouble of acquiring it. What every thing is really worth to it, or the man who has acquired it, and who wants to dispose of it, or exchange it for something else, is the toil and trouble which it can save to himself, and which it can impose upon other people.’ ‘Labour was the first price—the original purchase-money that was paid

for all things.' Again, in that early and rude state of society, which precedes both the accumulation of stock and the appropriation of land, the proportion between the quantities of labour necessary for acquiring different objects seems to be the only circumstance which can afford any rule for exchanging them for one another. If among a nation of hunters, for example, it usually cost twice the labour to kill a beaver which it does to kill a deer, one beaver should naturally exchange for, or be worth two deer. It is natural that what is usually the produce of two days', or two hours' labour, should be worth double of what is usually the produce of one day's, or one hour's labour.'²

That this is really the foundation of the exchangeable value of all things, excepting those which cannot be increased by human industry, is a doctrine of the utmost importance in political economy; for from no source do so many errors, and so much difference of opinion in that science proceed, as from the vague ideas which are attached to the word value.

If the quantity of labour realized in commodities, regulate their exchangeable value, every increase of the quantity of labour must augment the value of that commodity on which it is exercised, as every diminution must lower it.

Adam Smith, who so accurately defined the original source of exchangeable value, and who was bound in consistency to maintain, that all things became more or less valuable in proportion as more or less labour was bestowed on their production, has himself erected another standard measure of value, and speaks of things being more or less valuable, in proportion as they will exchange for more or less of this standard measure. Sometimes he speaks of corn, at other times of labour, as a standard measure; not the quantity of labour bestowed on the production of any object, but the quantity which it can command in the market: as if these were two equivalent

expressions, and as if because a man's labour had become doubly efficient, and he could therefore produce twice the quantity of a commodity, he would necessarily receive twice the former quantity in exchange for it.

If this indeed were true, if the reward of the labourer were always in proportion to what he produced, the quantity of labour bestowed on a commodity, and the quantity of labour which that commodity would purchase, would be equal, and either might accurately measure the variations of other things: but they are not equal; the first is under many circumstances an invariable standard, indicating correctly the variations of other things; the latter is subject to as many fluctuations as the commodities compared with it. Adam Smith, after most ably showing the insufficiency of a variable medium, such as gold and silver, for the purpose of determining the varying value of other things, has himself, by fixing on corn or labour, chosen a medium no less variable.

Gold and silver are no doubt subject to fluctuations, from the discovery of new and more abundant mines; but such discoveries are rare, and their effects, though powerful, are limited to periods of comparatively short duration. They are subject also to fluctuation, from improvements in the skill and machinery with which the mines may be worked; as in consequence of such improvements, a greater quantity may be obtained with the same labour. They are further subject to fluctuation from the decreasing produce of the mines, after they have yielded a supply to the world, for a succession of ages. But from which of these sources of fluctuation is corn exempted? Does not that also vary, on one hand, from improvements in agriculture, from improved machinery and implements used in husbandry, as well as from the discovery of new tracts of fertile land, which in other countries may be taken into cultivation, and which will affect the value of corn in every market where importation is

free? Is it not on the other hand subject to be enhanced in value from prohibitions of importation, from increasing population and wealth, and the greater difficulty of obtaining the increased supplies, on account of the additional quantity of labour which the cultivation of inferior lands requires? Is not the value of labour equally variable; being not only affected, as all other things are, by the proportion between the supply and demand, which uniformly varies with every change in the condition of the community, but also by the varying price of food and other necessaries, on which the wages of labour are expended?

In the same country double the quantity of labour may be required to produce a given quantity of food and necessaries at one time, that may be necessary at another, and a distant time; yet the labourer's reward may possibly be very little diminished. If the labourer's wages at the former period, were a certain quantity of food and necessaries, he probably could not have subsisted if that quantity had been reduced. Food and necessaries in this case will have risen 100 per cent if estimated by the quantity of labour necessary to their production, while they will scarcely have increased in value, if measured by the quantity of labour for which they will exchange.

The same remark may be made respecting two or more countries. In America and Poland, on the land last taken into cultivation, a year's labour of any given number of men, will produce much more corn than on land similarly circumstanced in England. Now, supposing all other necessaries to be equally cheap in those three countries, would it not be a great mistake to conclude, that the quantity of corn awarded to the labourer, would in each country be in proportion to the facility of production?

If the shoes and clothing of the labourer, could, by improvements in machinery, be produced by one fourth of the labour

now necessary to their production, they would probably fall 75 per cent; but so far is it from being true, that the labourer would thereby be enabled permanently to consume four coats, or four pair of shoes, instead of one, that it is probable his wages would in no long time be adjusted by the effects of competition, and the stimulus to population, to the new value of the necessaries on which they were expended. If these improvements extended to all the objects of the labourer's consumption, we should find him probably at the end of a very few years, in possession of only a small, if any, addition to his enjoyments, although the exchangeable value of those commodities, compared with any other commodity, in the manufacture of which no such improvement were made, had sustained a very considerable reduction; and though they were the produce of a very considerably diminished quantity of labour.

It cannot then be correct, to say with Adam Smith, 'that as labour may sometimes purchase a greater, and sometimes a smaller quantity of goods, it is their value which varies, not that of the labour which purchases them;' and therefore, 'that labour alone never varying in its own value, is alone the ultimate and real standard by which the value of all commodities can at all times and places be estimated and compared;'—but it is correct to say, as Adam Smith had previously said, 'that the proportion between the quantities of labour necessary for acquiring different objects seems to be the only circumstance which can afford any rule for exchanging them for one another; or in other words, that it is the comparative quantity of commodities which labour will produce, that determines their present or past relative value, and not the comparative quantities of commodities, which are given to the labourer in exchange for his labour.

Two commodities vary in relative value, and we wish to know in which the variation has really taken place. If we compare the

present value of one, with shoes, stockings, hats, iron, sugar, and all other commodities, we find that it will exchange for precisely the same quantity of all these things as before. If we compare the other with the same commodities, we find it has varied with respect to them all: we may then with great probability infer that the variation has been in this commodity, and not in the commodities with which we have compared it. If on examining still more particularly into all the circumstances connected with the production of these various commodities, we find that precisely the same quantity of labour and capital are necessary to the production of the shoes, stockings, hats, iron, sugar, &c.; but that the same quantity as before is not necessary to produce the single commodity whose relative value is altered, probability is changed into certainty, and we are sure that the variation is in the single commodity. we then discover also the cause of its variation.

If I found that announce of gold would exchange for a less quantity of all the commodities above enumerated, and many others; and if, moreover, I found that by the discovery of a new and more fertile mine, or by the employment of machinery to great advantage, a given quantity of gold could be obtained with a less quantity of labour, I should be justified in saying that the cause of the alteration in the value of gold relatively to other commodities, was the greater facility of its production, or the smaller quantity of labour necessary to obtain it. In like manner, if labour fell very considerably in value, relatively to all other things, and if I found that its fall was in consequence of an abundant supply, encouraged by the great facility with which corn, and the other necessities of the labourer, were produced, it would, I apprehend, be correct for me to say that corn and necessities had fallen in value in consequence of less quantity of labour being necessary to produce them, and that this facility of providing for the support of the labourer had been followed by a

fall in the value of labour. No, say Adam Smith and Mr Malthus, in the case of the gold you were correct in calling its variation a fall of its value, because corn and labour had not then varied; and as gold would command a less quantity of them, as well as of all other things, than before, it was correct to say that all things had remained stationary, and that gold only had varied; but when corn and labour fall, things which we have selected to be our standard measure of value, notwithstanding all the variations to which we acknowledge they are subject, it would be highly improper to say so; the correct language will be to say, that corn and labour have remained stationary, and all other things have risen in value.

Now it is against this language that I protest. I find that precisely, as in the case of the gold, the cause of the variation between corn and other things, is the smaller quantity of labour necessary to produce it, and therefore, by all just reasoning, I am bound to call the variation of corn and labour a fall in their value, and not a rise in the value of the things with which they are compared. If I have to hire a labourer for a week, and instead of ten shillings I pay him eight, no variation having taken place in the value of money, the labourer can probably obtain more food and necessaries, with his eight shillings, than he before obtained for ten: but this is owing, not to a rise in the real value of his wages, as stated by Adam Smith, and more recently by Mr Malthus, but to a fall in the value of the things on which his wages are expended, things perfectly distinct; and yet for calling this a fall in the real value of wages, I am told that I adopt new and unusual language, not reconcilable with the true principles of the science. To me it appears that the unusual and, indeed, inconsistent language, is that used by my opponents.

Suppose a labourer to be paid a bushel of corn for a week's work, when the price of corn is 80s. per quarter, and that he is paid

a bushel and a quarter when the price falls to 40s. Suppose, too, that he consumes half a bushel of corn a-week in his own family, and exchanges the remainder for other things, such as fuel, soap, candles, tea, sugar, salt, &c. &c.; if the three-fourths of a bushel which will remain to him, in one case, cannot procure him as much of the above commodities as half a bushel did in the other, which it will not, will labour have risen or fallen in value? Risen, Adam Smith must say, because his standard is corn, and the labourer receives more corn for a week's labour. Fallen, must the same Adam Smith say, 'because the value of a thing depends on the power of purchasing other goods which the possession of that object conveys,' and labour has a less power of purchasing such other goods.

Section II

Labour of different qualities differently rewarded. This is no cause of variation in the relative value of commodities .

In speaking, however, of labour, as being the foundation of all value, and the relative quantity of labour as almost exclusively determining the relative value of commodities, I must not be supposed to be inattentive to the different qualities of labour, and the difficulty of comparing an hour's or a day's labour, in one employment, with the same duration of labour in another. The estimation in which different qualities of labour are held, comes soon to be adjusted in the market with sufficient precision for all practical purposes, and depends much on the comparative skill of the labourer, and intensity of the labour performed. The scale, when once formed, is liable to little variation. If a day's labour of a working jeweller be more valuable than a day's labour of a common labourer, it has long ago been adjusted, and placed in its proper position in the scale of value.³

In comparing therefore the value of the same commodity, at different periods of time, the consideration of the comparative skill and intensity of labour, required for that particular commodity, needs scarcely to be attended to, as it operates equally at both periods. One description of labour at one time is compared with the same description of labour at another; if a tenth, a fifth, or a fourth, has been added or taken away, an effect proportioned to the cause will be produced on the relative value of the commodity.

If a piece of cloth be now of the value of two pieces of linen, and if, in ten years hence, the ordinary value of a piece of cloth should be four pieces of linen, we may safely conclude, that either more labour is required to make the cloth, or less to make the linen, or that both causes have operated.

As the inquiry to which I wish to draw the reader's attention, relates to the effect of the variations in the relative value of commodities, and not in their absolute value, it will be of little importance to examine into the comparative degree of estimation in which the different kinds of human labour are held. We may fairly conclude, that whatever inequality there might originally have been in them, whatever the ingenuity, skill, or time necessary for the acquirement of one species of manual dexterity more than another, it continues nearly the same from one generation to another; or at least, that the variation is very inconsiderable from year to year, and therefore, can have little effect, for short periods, on the relative value of commodities.

‘The proportion between the different rates both of wages and profit in the different employments of labour and stock, seems not to be much affected, as has already been observed, by the riches or poverty, the advancing, stationary, or declining state of the society. Such revolutions in the public welfare, though they affect the general rates both of wages and profit, must in the end affect them