

AN INQUIRY INTO  
THE NATURE AND CAUSES OF  
THE WEALTH OF NATIONS

BY  
ADAM SMITH

EDITED, WITH AN INTRODUCTION, NOTES, MARGINAL  
SUMMARY AND AN ENLARGED INDEX

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## CHAPTER IX

### OF THE PROFITS OF STOCK

THE rise and fall in the profits of stock depend upon the same causes with the rise and fall in the wages of labour, the increasing or declining state of the wealth of the society; but those causes affect the one and the other very differently.

Profits depend on increase and decrease of wealth,

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 its profit; and when there is a like increase of stock in all the different trades carried on in the same society, the same competition must produce the same effect in them all.<sup>1</sup>

falling with the increase of wealth.

It is not easy, it has already been observed, to ascertain what are the average wages of labour even in a particular place, and at a particular time. We can, even in this case, seldom determine more than what are the most usual wages. But even this can seldom be done with regard to the profits of stock. Profit is so very fluctuating, that the person who carries on a particular trade cannot always tell you himself what is the average of his annual profit. It is affected, not only by every variation of price in the commodities which he deals in, but by the good or bad fortune both of his rivals and of his customers, and by a thousand other accidents to which goods when carried either by sea or by land, or even when stored in a warehouse, are liable. It varies, therefore, not only from year to year, but from day to day, and almost from hour to hour. To ascertain what is the average profit of all the different trades carried on in a great kingdom, must be much more difficult; and to judge of what it may have been formerly, or in remote periods of time, with any degree of precision, must be altogether impossible.

The rate is difficult to ascertain,

<sup>1</sup>[This statement is somewhat amplified below, p. 335, where the increasing intensity of the competition between the owners of capital is attributed to the gradually increasing difficulty of finding 'a profitable method of employing any new capital'.]

but may be  
inferred  
from the  
rate of in-  
terest,

But though it may be impossible to determine with any degree of precision, what are or were the average profits of stock, either in the present, or in ancient times, some notion may be formed of them from the interest of money.<sup>1</sup> It may 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.<sup>2</sup> According, therefore, as the usual market rate of interest varies in any country, we may be assured that the ordinary profits of stock must vary with it, must sink as it sinks, and rise as it rises. The progress of interest, therefore, may lead us to form some notion of the progress of profit.

which has  
fallen in  
England,

By the 37th of Henry VIII.<sup>3</sup> all interest above ten per cent. was declared unlawful. More, it seems, had sometimes been taken before that. In the reign of Edward VI. religious zeal prohibited all interest.<sup>4</sup> This prohibition, however, like all others of the same kind, is said to have produced no effect, and probably rather increased than diminished the evil of usury. The statute of Henry VIII. was revived by the 13th of Elizabeth, cap. 8.<sup>5</sup> and ten per cent. continued to be the legal rate of interest till the 21st of James I.<sup>6</sup> when it was restricted to eight per cent. It was reduced to six per cent. soon after the restoration,<sup>7</sup> and

<sup>1</sup>[Defined above, p. 54.]

<sup>2</sup>[But that interest will not always bear the same proportion to profit is recognised below, pp. 98, 99.]

<sup>3</sup>[C. 9, 'an act against usury'. On the ground that previous Acts and laws had been obscure it repeals them all, and prohibits the repurchase of goods sold within three months before, and the obtaining by any device more than 10 per cent. per annum for forbearing payment of money. Its real effect was to legalise interest up to 10 per cent.]

<sup>4</sup>[5 & 6 Ed. VI., c. 20, forbade all interest, and repealed 37 Hen. VIII., c. 9, alleging in its preamble that that Act was not intended to allow usury, as 'divers persons blinded with inordinate love of themselves' imagined, but was intended against all usury, 'and yet nevertheless the same was by the said act permitted for the avoiding of a more ill and inconvenience that before that time was used'.]

<sup>5</sup>[On the ground that 5 & 6 Ed. VI., c. 20, 'hath not done so much good as was hoped it should but rather the said vice of usury and especially by way of sale of wares and shifts of interest hath much more exceedingly abounded to the utter undoing of many gentlemen, merchants, occupiers and other'.]

<sup>6</sup>[C. 17, which alleges that the fall of prices which had taken place made the maintenance of 'so high a rate' as 10 per cent. prejudicial to agriculture and commerce, and therefore reduces the maximum to 8 per cent. for the future. It concludes with the very empty proviso that 'no words in this law contained shall be construed or expounded to allow the practice of usury in point of religion or conscience'.]

<sup>7</sup>[It had already been so reduced by a Commonwealth Act of Parliament, passed in August, 1651, which adopts the reasons given by 21 Jac. I., c. 17. But of course this, like other Acts of the Commonwealth, had to be ignored by the Restoration Parliament, which, by 12 Car. II., c. 13, re-made the reduction on the grounds that the abatement of interest from 10 per cent. 'in former times hath been found by notable experience beneficial to the advancement of trade and improvement of lands by good husbandry, with many other considerable advantages to this nation, especially the reducing of it to a nearer proportion with foreign states with whom we traffic,' and because 'in fresh memory the like fall from eight to six in the hundred by a late constant practice hath found the like success to the general contentment of this nation as is visible by several improvements,' while 'it is the endeavour of some at present to reduce it back again in practice to the allowance of the statute still in



by the 12th of Queen Anne,<sup>1</sup> to five per cent. All these different statutory regulations seem to have been made with great propriety. They seem to have followed and not to have gone before the market rate of interest, or the rate at which people of good credit usually borrowed. Since the time of Queen Anne, five per cent. seems to have been rather above than below the market rate. Before the late war,<sup>2</sup> the government borrowed at three per cent.;<sup>3</sup> and people of good credit in the capital, and in many other parts of the kingdom, at three and a half, four, and four and a half per cent.

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 rather to have been gradually accelerated than retarded. They seem, not only to have been going on, but to have been going on faster and faster.<sup>4</sup> The wages of labour have been continually increasing during the same period, and in the greater part of the different branches of trade and manufactures the profits of stock have been diminishing.

It generally requires a greater stock to carry on any sort of trade in a great 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 former below what it is in the latter. But the wages of labour are generally higher in a great town than in a country village. In a thriving town the people who have great stocks to employ, frequently cannot get the number of workmen they want, and therefore bid against one another in order to get as many as they can, which raises the wages of labour, and lowers the profits of stock. In the remote parts of the country there is frequently not stock sufficient to employ all the people, who therefore bid against one another in order to get employment, which lowers the wages of labour, and raises the profits of stock.

force to eight in the hundred to the great discouragement of ingenuity and industry in the husbandry trade and commerce of this nation.]

<sup>1</sup>[By 12 Ann. st. 2, c. 16, which speaks of the benefit to trade and agriculture resulting from the earlier reductions, of the burdens which the war had laid on landowners, and of the decay of foreign trade owing to the high interest and profit of money at home, which things made it 'absolutely necessary to reduce the high rate of interest' to a nearer proportion with the interest allowed in foreign states.]

<sup>2</sup>[That of 1756-1763.]

<sup>3</sup>[Holders of 4 per cent. annuities who declined to accept in exchange new stock bearing interest for some years at 3½ and afterwards at 3 per cent. were paid off by means of money raised by a 3 per cent. loan in 1750. See Sinclair, *History of the Public Revenue*, 1785, pt. ii., p. 113. From that time till the beginning of 1755 the 3 per cents. were usually above par. Then they gradually sank to 63 in January, 1762; rose to 96 in March, 1763; fell again to 80 in October, 1764; after that they were seldom above 90 before the publication of the *Wealth of Nations* (Sinclair, *op. cit.*, pt. iii., 1790, Appendix iii.). The policy of a legal regulation of interest is discussed below, pp. 338, 339.]

<sup>4</sup>[Below, pp. 326, 327.]

while wealth has been increasing.

Profits are lower in towns, where there is much stock, than in the country, where there is little.

Interest is higher in Scotland, a poor country, than in England.

In Scotland, though the legal rate of interest is the same as in England, the market rate is rather higher. People of the best credit there seldom borrow under five per cent. Even private bankers in Edinburgh give four per cent. upon their promissory notes, of which payment either in whole or in part may be demanded at pleasure. Private bankers in London give no interest for the money which is deposited with them. There are few trades which cannot be carried on with a smaller stock in Scotland than in England. The common rate of profit, therefore, must be somewhat greater. The wages of labour, it has already been observed, are lower in Scotland than in England.<sup>1</sup> The country too is not only much poorer, but the steps by which it advances to a better condition, for it is evidently advancing, seem to be much slower and more tardy.<sup>2</sup>

So too in France, a country probably less rich than England,

The legal rate of interest in France has not, during the course of the present century, been always regulated by the market rate.<sup>3</sup> In 1720 interest was reduced from the twentieth to the fiftieth penny, or from five to two per cent. In 1724 it was raised to the thirtieth penny, or to  $3\frac{1}{3}$  per cent. In 1725 it was again raised to the twentieth penny, or to five per cent. In 1766, during the administration of Mr. Laverdy, it was reduced to the twenty-fifth penny, or to four per cent. The Abbe Terray raised it afterwards to the old rate of five per cent. 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 executed. France is perhaps in the present times not so rich a country as England; and though the legal rate of interest has in France frequently been lower than in England, the market rate has generally been higher; for there, as in other countries, they have several very safe and easy methods of evading the law.<sup>4</sup> The profits of trade, I have been assured by British merchants who had traded in both countries, are higher in France than in England; and it is no doubt upon this account that many British subjects chuse rather to employ their capitals in a country where trade is in disgrace, 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 which you may remark between the dress and countenance of the common people in the one country and in the other, sufficiently indicates the difference in their condition. The contrast is

<sup>1</sup>[Above, p. 78.]

<sup>2</sup>[Below, p. 190.]

<sup>3</sup>See Denisart, Article Taux des Interets, tom. iii. p. 18. [J. B. Denisart, *Collection de décisions nouvelles et de notions relatives à la jurisprudence actuelle*, 7th ed., 1771, s.v. Intérêt, subdivision Taux des Intérêts. This does not go so far as the reduction of 1766. The note appears first in ed. 2.]

<sup>4</sup>[Below, p. 339.]



still greater when you return from France. France, though no doubt a richer country than Scotland, seems not to be going forward so fast. It is a common and even a popular opinion in the country, that it is going backwards; an opinion which, I apprehend, is ill-founded even with regard to France, but which nobody can possibly entertain with regard to Scotland, who sees the country now, and who saw it twenty or thirty years ago.

The province of Holland, on the other hand, in proportion to the extent of its territory and the number of its people, is a richer country than England. The government there borrow at two per cent., and private people of good credit at three. The wages of labour are said to be higher in Holland than in England, and the Dutch, it is well known, trade upon lower profits than any people in Europe. The trade of Holland, it has been pretended by some people, is decaying, and it may perhaps be true that 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 very apt to complain that trade decays; though the diminution of profit is the natural effect of its prosperity, or 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 very large share. The great property which they possess both in the French and English funds, about forty millions, it is said, in the latter (in which I suspect, however, there is a considerable exaggeration);<sup>1</sup> the great sums which they lend to private people in countries where the rate of interest is higher than in their own, are circumstances which no doubt demonstrate the redundancy of their stock, or that it has increased beyond what they can employ with tolerable profit in the proper business of their own country: but they do not demonstrate that that business has decreased. As the capital of a private man, though acquired by a

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England.

<sup>1</sup> [Postlethwayt, *Dictionary of Commerce*, 2nd ed., 1757, vol. 1., p. 877, *s.v.* Funds, says that the amount of British funds held by foreigners has been estimated by some at one-fifth and by others at one-fourth of the whole debt. But Magens, *Universal Merchant* (ed. Horsley), 1753, p. 13, thought it 'more than probable that foreigners are not concerned in anything like one-fourth'. He had been informed 'that most of the money which the Dutch have here is in Bank, East India and South Sea stocks, and that their interest in them might amount to one-third of the whole'. Fairman, *Account of the Public Funds*, 7th ed., 1824, p. 229, quotes 'an account drawn up in the year 1762, showing how much of the several funds transferable at the Bank of England then stood in the names of foreigners,' which is also in Sinclair, *History of the Public Revenue*, pt. iii., 1790, p. 366. From this it appears that foreigners held £4,627,858 of Bank stock and £10,328,537 in the other funds, which did not include South Sea and East India stock. Fairman had reason to believe that the South Sea holding amounted to £2,500,000 and the East Indian to more than £500,000, which would make in all about £18,000,000. In 1806, he says, the total claiming exemption from income tax (foreigners were exempt) was £18,500,000, but this did not include Bank stock.]

particular trade, may increase beyond what he can employ in it, and yet that trade continue to increase too ; so may likewise the capital of a great nation.

In the peculiar case of new colonies high wages and high profits go together, but profits gradually diminish.

In our North American and West Indian colonies, not only the wages of labour, but the interest of 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 six to eight per cent. High wages of labour and high profits of stock, however, are things, perhaps, which scarce ever go together, except in the peculiar circumstances of new colonies. A new colony must always for some time be more under-stocked in proportion to the extent of its territory, and more under-peopled in proportion to the extent of its stock, than the greater part of other countries. They have more land than they have stock to cultivate. What they have, therefore, is applied to the cultivation only of what is most fertile and most favourably situated, the land<sup>1</sup> near the sea shore, and along the banks of navigable rivers. Such land too is frequently purchased at a price below the value even of its natural produce. Stock employed in the purchase and improvement of such lands must yield a very large profit, and consequently afford to pay a very large interest. Its rapid accumulation in so profitable an employment enables the planter to increase the number of his hands faster than he can find them in a new settlement. Those whom he can find, therefore, are very liberally rewarded. As the colony increases, the profits of stock gradually diminish. When the most fertile and best situated lands have been all occupied, less profit can be made by the cultivation of what is inferior both in soil and situation, and less interest can be afforded for the stock which is so employed. In the greater part of our colonies, accordingly, both the legal and the market rate of interest have been considerably reduced during the course of the present century. As riches, improvement, and population have increased, interest has declined. The wages of labour do not sink with the profits of stock. The demand for labour increases with the increase of stock whatever be its profits ; and after these are diminished, stock may not only continue to increase, but to increase much faster than before. It is with industrious nations who are advancing in the acquisition of riches, as with industrious individuals. A great stock, though with small profits, generally increases faster than a small stock with great profits. Money, says the proverb, makes money. When you have got a little, it is often easy to get more. The great difficulty is to get that little. The connection

<sup>1</sup> [Eds. 1-3 read 'lands'.]



between the increase of stock and that of industry, or of the demand for useful labour, has partly been explained already,<sup>1</sup> but will be explained more fully hereafter<sup>2</sup> in treating of 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 of money, even in a country which is fast advancing in the acquisition of riches. The stock of the country not being sufficient for the whole accession of business, which such acquisitions present to the different people among whom it is divided, is applied to those particular branches only which afford the greatest profit. Part of what had before been employed in other trades, is necessarily withdrawn from them, and turned into some of the new and more profitable ones. In all those old trades, therefore, the competition comes to be less than before. The market comes to be less fully supplied with many different sorts of goods. Their price necessarily rises more or less, and yields a greater profit to those who deal in them, who can, therefore, afford to borrow at a higher interest. For some time after the conclusion of the late war, not only private people of the best credit, but some of the greatest companies in London, commonly borrowed at five per cent. who before that had not been used to pay more than four, and four and a half per cent. The great accession both of territory and trade, by our acquisitions in North America and the West Indies, will sufficiently account for this, without supposing any diminution in the capital stock of the society. So great an accession of new business to be carried on by the old stock, must necessarily have diminished the quantity employed in a great number of particular branches, in which the competition being less, the profits must have been greater. I shall hereafter<sup>3</sup> have occasion to mention the reasons which dispose me to believe that the capital stock of Great Britain was not diminished even by the enormous expence of the late war.

The diminution of the capital stock of the society, or of the funds destined for the maintenance of industry, however, as it lowers the wages of labour, so it raises the profits of stock, and consequently the interest of money. By the wages of labour being lowered, the owners of what stock remains in the society can bring their goods at less expence to market than before, and less stock being employed in supplying the market than before, they can sell them dearer.<sup>4</sup> Their goods cost them less, and they get more for them. Their profits, therefore, being

New territories and trades may raise profits even in a country advancing in riches.

Diminution of capital stock raises profits.

<sup>1</sup>[Above, pp. 66-70.]

<sup>2</sup>[Below, pp. 313-331.]

<sup>3</sup>[Below, pp. 327, 328; vol. ii., p. 414.]

<sup>4</sup>[Eds. 1 and 2 read 'cheaper'.]



augmented at both ends, can well afford 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, so the profits of stock are very high in those ruined countries. The interest of money is proportionably so. In Bengal, money is frequently lent to the farmers at forty, fifty, and sixty per cent. and the succeeding crop is mortgaged for the payment. As the profits which can afford such an interest must eat up almost the whole rent of the landlord, so such enormous usury must in its turn eat up the greater part of those profits. Before the fall of the Roman republic, a 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 eight-and-forty<sup>1</sup> per cent. as we learn from the letters of Cicero.<sup>2</sup>

In a country as rich as it possibly could be, profits as well as wages would be very low,

In a country which had acquired that full complement of riches which the nature of its soil and climate, and its situation with respect to other countries, allowed it to acquire; which could, therefore, advance no further, and which was not going backwards, both the wages of labour and the profits of stock would probably be very low. In a country fully peopled in proportion to what either its territory could maintain or its stock employ, the competition for employment would necessarily be so great as to reduce the wages of labour to what was barely sufficient to keep up the number of labourers, and, the country being already fully peopled, that number could never be augmented. In a country fully stocked in proportion to all the business it had to transact, as great a quantity of stock would be employed in every particular branch as the nature and extent of the trade would admit. The competition, therefore, would every-where be as great, and consequently the ordinary profit as low as possible.

but there has never yet been any such country.

But perhaps no country has ever yet arrived at this degree of opulence. China seems to have been long stationary, and had probably long ago acquired that full complement of riches which is consistent with the nature of its laws and institutions. But this complement may be much inferior to what, with other laws and institutions, the nature of its soil, climate, and situation might admit of. A country which neglects or despises foreign commerce, and which admits the vessels of

<sup>1</sup> [Ed. 1 reads 'five and forty,' 8 having probably been misread as 5.

<sup>2</sup> [Ad Atticum, VI., i., 5, 6. Cicero had arranged that a six-year-old debt should be repaid with interest at the rate of 12 per cent. per annum, the principal being increased by that amount for each of the six years. This would have very nearly doubled the principal, but Brutus, through his agent, kept asking for 48 per cent., which would have multiplied it by more than fifteen. However, Cicero asserted that the 12 per cent. would have satisfied the cruellest usurers.]

foreign nations into one or two of its ports only, cannot transact the same quantity of business which it might do with different laws and institutions. In a country too, where, though the rich or the owners of large capitals enjoy a good deal of security, the poor or the owners of small capitals enjoy scarce any, but are liable, under the pretence of justice, to be pillaged and plundered at any time by the inferior mandarines, the quantity of stock employed in all the different branches of business transacted within it, can never be equal to what the nature and extent of that business might admit. In every different 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. Twelve per cent. accordingly is said to be the common interest of money in China, and the ordinary profits of stock must be sufficient to afford this large interest.

A defect in the law may sometimes raise the rate of interest considerably above what the condition of the country, as to wealth or poverty, would require. When the law does not enforce the performance of contracts, it puts all borrowers nearly upon the same footing with bankrupts or people of doubtful credit 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 who over-run the western provinces of the Roman empire, the performance of contracts was left for many ages to the faith of the contracting parties.<sup>1</sup> The courts of justice of their kings seldom intermeddled in it. The high rate of interest which took place in those ancient times may perhaps be partly accounted for from this cause.

When the law prohibits interest altogether, it does not prevent it. Many people must borrow, and nobody will lend without such a consideration for the use of their money as is suitable, not only to what can be made by the use of it, but to the difficulty and danger of evading the law. The high rate of interest among all Mahometan nations is accounted for by Mr. Montesquieu, not from their poverty, but partly from this,<sup>2</sup> and partly from the difficulty of recovering the money.<sup>3</sup>

The lowest ordinary rate of profit must always be something more than what is sufficient to compensate the occasional losses to which

Interest is raised by defective enforcement of contracts,

and by prohibition.

The lowest rate of profit must be

<sup>1</sup>[*Lectures*, pp. 130-134.]

<sup>2</sup>[*I. e.*, the danger of evading the law.]

<sup>3</sup>[*Esprit des lois*, liv. xxii, ch. 19, 'L'usure augmente dans les pays mahométans à proportion de la sévérité de la défense : le prêteur s'indemnise du péril de la contravention. Dans ces pays d'Orient, la plupart des hommes n'ont rien d'assuré ; il n'y a presque point de rapport entre la possession actuelle d'une somme et l'espérance de la ravoir après l'avoir prêtée : l'usure y augmente donc à proportion du péril de l'insolvabilité.']

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and so must  
the lowest  
rate of  
interest.

In a country  
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the wealth-  
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could live on  
it.

The highest  
rate of profit  
would eat up  
all rent and  
leave only  
wages.

The propor-  
tion of inter-  
est to profit

every employment of stock is exposed. It is this surplus only which is neat or clear profit. What is called gross profit comprehends frequently, not only this surplus, but what is retained for compensating such extraordinary losses. The interest which the borrower can afford to pay is in proportion to the clear profit only.

The lowest ordinary rate of interest must, in the same manner, be something more than sufficient to compensate the occasional losses to which lending, even with tolerable prudence, is exposed. Were it not more, charity or friendship could be the only motives for lending.

In a country which had acquired its full complement of riches, where in every particular branch of business there was the greatest quantity of stock that could be employed in it, as the ordinary rate of clear profit would be very small, so the usual market rate of interest which could be afforded out of it, would be so low as to render it impossible for any but the very wealthiest people to live upon the interest of their money. All people of small or middling fortunes would be obliged to superintend themselves the employment of their own stocks. It would be necessary that almost every man should be a man of business, or engage in some sort of trade. The province of Holland seems to be approaching near to this state. It is there unfashionable not to be a man of business.<sup>1</sup> Necessity makes it usual for almost every man to be so, and custom every where regulates fashion. As it is ridiculous not to dress, so is it, in some measure, not to be employed, like other people. As a man of a civil profession 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.

The highest ordinary rate of profit may be such as, in the price of the greater part of commodities, eats up the whole of what should go to the rent of the land, and leaves only what is sufficient to pay the labour of preparing and bringing them to market, according to the lowest rate at which labour can any-where be paid, the bare subsistence of the labourer. The workman must always have been fed in some way or other while he was about the work; but the landlord may not always have been paid. The profits of the trade which the servants of the East India Company carry on in Bengal may not perhaps be very far from this rate.<sup>2</sup>

The proportion which the usual market rate of interest ought to bear to the ordinary rate of clear profit, necessarily varies as profit

<sup>1</sup>[Joshua Gee, *Trade and Navigation of Great Britain Considered*, 1729, p. 128, notices the fact of the Dutch being all engaged in trade and ascribes it to the deficiency of valuable land.]

<sup>2</sup>[See below, vol. ii., pp. 138, 139.]



rises or falls. Double interest is in Great Britain reckoned, what the merchants call, a good, moderate, reasonable profit ; terms which I apprehend mean no more than a common and usual profit. In a country where the ordinary rate of clear profit is eight or ten per cent., it may be reasonable that one half of it should go to interest, wherever business is carried on with borrowed money. The stock is at the risk of the borrower, who, as it were, insures it to the lender ; and four or five per cent. may, in the greater part of trades, be both a sufficient profit upon the risk of this insurance, and a sufficient recompence for the trouble of employing the stock. But the proportion between interest and clear profit might not be the same in countries where the ordinary rate of profit was either a good deal lower, or a good deal higher. If it were a good deal lower, one half of it perhaps could not be afforded for interest ; and more might be afforded if it were a good deal higher.

In countries which are fast advancing to riches, the low rate of profit may, in the price of many commodities, compensate the high wages of labour, and enable those countries to sell as cheap as their less thriving neighbours, among whom the wages of labour may be lower.

In reality high profits tend much more to raise the price of work than high wages. If in the linen manufacture, for example, the wages of the different working people, the flax-dressers, the spinners, the weavers, &c. should, all of them, be advanced two pence a day ; it would be necessary to heighten the price of a piece of linen only by a number of two pences equal to the number of people that had been employed about it, multiplied by the number of days during which they had been so employed. That part of the price of the commodity which resolved itself into wages would, through all the different stages of the manufacture, rise only in arithmetical proportion to this rise of wages. But if the profits of all the different employers of those working people should be raised five per cent. that part of the price of the commodity which resolved itself into profit, would, through all the different stages of the manufacture, rise in geometrical proportion to this rise of profit. The employer of the flax-dressers would in selling his flax require an additional five per cent. upon the whole value of the materials and wages which he advanced to his workmen. The employer of the spinners would require an additional five per cent. both upon the advanced price of the flax and upon the wages of the spinners. And the employer of the weavers would require a like five per cent. both upon the advanced price of the linen yarn and upon the wages of the weavers. In raising the price of commodities the rise of

rises and falls with the rate of profit.

Countries with low profits can sell as cheap as those with low wages ; and in reality high profits tend to raise prices more than high wages.

wages operates in the same manner as simple interest does in the accumulation of debt. The rise of profit operates like compound interest.<sup>1</sup> 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 both at home and abroad. They say nothing concerning the bad effects of high profits. They are silent with regard to the pernicious effects of their own gains. They complain only of those of other people.<sup>2</sup>

<sup>1</sup>[According to the view of the subject here set forth, if the three employers each spend £100 in wages and materials, and profits are at first 5 per cent. and then rise to 10 per cent., the finished commodity must rise from £331 os. 3d. to £364 2s., while if, on the other hand, the wages rise from £100 to £105, the commodity will only rise to £347 11s. 3d. It is assumed either that profits mean profits on turn-over and not on capital per annum, or else that the employers each have their capital turned over once a year. But even when one or other of these assumptions is granted, it is clear that the 'simple interest' may easily be greater than the 'compound'. In the examples just given we doubled profits, but only added one-twentieth to wages. If we double wages and leave profits at 5 per cent., the commodity should rise from £331 os. 3d. to £662 os. 6d.]

<sup>2</sup>[This paragraph is not in ed. 1; the epigram at the end, however, did not make its appearance here for the first time in ed. 2, since it occurs in a slightly less polished form in vol. II., p. 100.]