

Author: [Ricardo, David](#) (1772-1823)

Title: *On the Principles of Political Economy and Taxation*

Published: London: John Murray, 1821. Third edition.

First published: 1817.

Chapter 5 Of Wages

Labour, like all other things which are purchased and sold, and which may be increased or diminished in quantity, has its natural and its market price. The natural price of labour is that price which is necessary to enable the labourers, one with another, to subsist and to perpetuate their race, without either increase or diminution. 5.1

The power of the labourer to support himself, and the family which may be necessary to keep up the number of labourers, does not depend on the quantity of money which he may receive for wages, but on the quantity of food, necessities, and conveniences become essential to him from habit, which that money will purchase. The natural price of labour, therefore, depends on the price of the food, necessities, and conveniences required for the support of the labourer and his family. With a rise in the price of food and necessities, the natural price of labour will rise; with the fall in their price, the natural price of labour will fall. 5.2

With the progress of society the natural price of labour has always a tendency to rise, because one of the principal commodities by which its natural price is regulated, has a tendency to become dearer, from the greater difficulty of producing it. As, however, the improvements in agriculture, the discovery of new markets, whence provisions may be imported, may for a time counteract the tendency to a rise in the price of necessities, and may even occasion their natural price to fall, so will the same causes produce the correspondent effects on the natural price of labour. 5.3

The natural price of all commodities, excepting raw produce and labour, has a tendency to fall, in the progress of wealth and population; for though, on one hand, they are enhanced in real value, from the rise in the natural price of the raw material of which they are made, this is more than counterbalanced by the improvements in machinery, by the better division and distribution of labour, and by the increasing skill, both in science and art, of the producers. 5.4

The market price of labour is the price which is really paid for it, from the natural operation of the proportion of the supply to the demand; labour is dear when it is scarce, and cheap when it is plentiful. However much the market price of labour may deviate from its natural price, it has, like commodities, a tendency to conform to it. 5.5

It is when the market price of labour exceeds its natural price, that the condition of the labourer is flourishing and happy, that he has it in his power to command a greater proportion of the necessities and enjoyments of life, and therefore to rear a healthy and numerous family. When, however, by the encouragement which high 5.6

wages give to the increase of population, the number of labourers is increased, wages again fall to their natural price, and indeed from a re-action sometimes fall below it.

When the market price of labour is below its natural price, the condition of the labourers is most wretched: then poverty deprives them of those comforts which custom renders absolute necessities. It is only after their privations have reduced their number, or the demand for labour has increased, that the market price of labour will rise to its natural price, and that the labourer will have the moderate comforts which the natural rate of wages will afford. 5.7

Notwithstanding the tendency of wages to conform to their natural rate, their market rate may, in an improving society, for an indefinite period, be constantly above it; for no sooner may the impulse, which an increased capital gives to a new demand for labour be obeyed, than another increase of capital may produce the same effect; and thus, if the increase of capital be gradual and constant, the demand for labour may give a continued stimulus to an increase of people. 5.8

Capital is that part of the wealth of a country which is employed in production, and consists of food, clothing, tools, raw materials, machinery, &c. necessary to give effect to labour. 5.9

Capital may increase in quantity at the same time that its value rises. An addition may be made to the food and clothing of a country, at the same time that more labour may be required to produce the additional quantity than before; in that case not only the quantity, but the value of capital will rise. 5.10

Or capital may increase without its value increasing, and even while its value is actually diminishing; not only may an addition be made to the food and clothing of a country, but the addition may be made by the aid of machinery, without any increase, and even with an absolute diminution in the proportional quantity of labour required to produce them. The quantity of capital may increase, while neither the whole together, nor any part of it singly, will have a greater value than before, but may actually have a less. 5.11

In the first case, the natural price of labour, which always depends on the price of food, clothing, and other necessities, will rise; in the second, it will remain stationary, or fall; but in both cases the market rate of wages will rise, for in proportion to the increase of capital will be the increase in the demand for labour; in proportion to the work to be done will be the demand for those who are to do it. 5.12

In both cases too the market price of labour will rise above its natural price; and in both cases it will have a tendency to conform to its natural price, but in the first case this agreement will be most speedily effected. The situation of the labourer will be improved, but not much improved; for the increased price of food and necessities will absorb a large portion of his increased wages; consequently a small supply of labour, or a trifling increase in the population, will soon reduce the market price to the then increased natural price of labour. 5.13

In the second case, the condition of the labourer will be very greatly improved; he will receive increased money wages, without having to pay any increased price, and perhaps even a diminished price for the commodities which he and his family consume; and it will not be till after a great addition has been made to the 5.14

population, that the market price of labour will again sink to its then low and reduced natural price.

Thus, then, with every improvement of society, with every increase in its capital, the market wages of labour will rise; but the permanence of their rise will depend on the question, whether the natural price of labour has also risen; and this again will depend on the rise in the natural price of those necessities on which the wages of labour are expended. ^{5.15}

It is not to be understood that the natural price of labour, estimated even in food and necessities, is absolutely fixed and constant. It varies at different times in the same country, and very materially differs in different countries.^{14*} It essentially depends on the habits and customs of the people. An English labourer would consider his wages under their natural rate, and too scanty to support a family, if they enabled him to purchase no other food than potatoes, and to live in no better habitation than a mud cabin; yet these moderate demands of nature are often deemed sufficient in countries where "man's life is cheap", and his wants easily satisfied. Many of the conveniences now enjoyed in an English cottage, would have been thought luxuries at an earlier period of our history. ^{5.16}

From manufactured commodities always falling, and raw produce always rising, with the progress of society, such a disproportion in their relative value is at length created, that in rich countries a labourer, by the sacrifice of a very small quantity only of his food, is able to provide liberally for all his other wants. ^{5.17}

Independently of the variations in the value of money, which necessarily affect money wages, but which we have here supposed to have no operation, as we have considered money to be uniformly of the same value, it appears then that wages are subject to a rise or fall from two causes: ^{5.18}

1st. The supply and demand of labourers.

2dly. The price of the commodities on which the wages of labour are expended.

In different stages of society, the accumulation of capital, or of the means of employing labour, is more or less rapid, and must in all cases depend on the productive powers of labour. The productive powers of labour are generally greatest when there is an abundance of fertile land: at such periods accumulation is often so rapid, that labourers cannot be supplied with the same rapidity as capital. ^{5.19}

It has been calculated, that under favourable circumstances population may be doubled in twenty-five years; but under the same favourable circumstances, the whole capital of a country might possibly be doubled in a shorter period. In that case, wages during the whole period would have a tendency to rise, because the demand for labour would increase still faster than the supply. ^{5.20}

In new settlements, where the arts and knowledge of countries far advanced in refinement are introduced, it is probable that capital has a tendency to increase faster than mankind: and if the deficiency of labourers were not supplied by more populous countries, this tendency would very much raise the price of labour. In proportion as these countries become populous, and land of a worse quality is taken into cultivation, the tendency to an increase of capital diminishes; for the surplus produce remaining, after satisfying the wants of the existing population, must ^{5.21}

necessarily be in proportion to the facility of production, viz. to the smaller number of persons employed in production. Although, then, it is probable, that under the most favourable circumstances, the power of production is still greater than that of population, it will not long continue so; for the land being limited in quantity, and differing in quality, with every increased portion of capital employed on it, there will be a decreased rate of production, whilst the power of population continues always the same.

In those countries where there is abundance of fertile land, but where, from the 5.22
ignorance, indolence, and barbarism of the inhabitants, they are exposed to all the evils of want and famine, and where it has been said that population presses against the means of subsistence, a very different remedy should be applied from that which is necessary in long settled countries, where, from the diminishing rate of the supply of raw produce, all the evils of a crowded population are experienced. In the one case, the evil proceeds from bad government, from the insecurity of property, and from a want of education in all ranks of the people. To be made happier they require only to be better governed and instructed, as the augmentation of capital, beyond the augmentation of people, would be the inevitable result. No increase in the population can be too great, as the powers of production are still greater. In the other case, the population increases faster than the funds required for its support. Every exertion of industry, unless accompanied by a diminished rate of increase in the population, will add to the evil, for production cannot keep pace with it.

With a population pressing against the means of subsistence, the only remedies are 5.23
either a reduction of people, or a more rapid accumulation of capital. In rich countries, where all the fertile land is already cultivated, the latter remedy is neither very practicable nor very desirable, because its effect would be, if pushed very far, to render all classes equally poor. But in poor countries, where there are abundant means of production in store, from fertile land not yet brought into cultivation, it is the only safe and efficacious means of removing the evil, particularly as its effect would be to elevate all classes of the people.

The friends of humanity cannot but wish that in all countries the labouring classes 5.24
should have a taste for comforts and enjoyments, and that they should be stimulated by all legal means in their exertions to procure them. There cannot be a better security against a superabundant population. In those countries, where the labouring classes have the fewest wants, and are contented with the cheapest food, the people are exposed to the greatest vicissitudes and miseries. They have no place of refuge from calamity; they cannot seek safety in a lower station; they are already so low, that they can fall no lower. On any deficiency of the chief article of their subsistence, there are few substitutes of which they can avail themselves, and dearth to them is attended with almost all the evils of famine.

In the natural advance of society, the wages of labour will have a tendency to fall, 5.25
as far as they are regulated by supply and demand; for the supply of labourers will continue to increase at the same rate, whilst the demand for them will increase at a slower rate. If, for instance, wages were regulated by a yearly increase of capital, at the rate of 2 per cent, they would fall when it accumulated only at the rate of $1\frac{1}{2}$ per cent. They would fall still lower when it increased only at the rate of 1, or $\frac{1}{2}$ per cent, and would continue to do so until the capital became stationary, when wages also would become stationary, and be only sufficient to keep up the numbers of the actual population. I say that, under these circumstances, wages would fall, if they

were regulated only by the supply and demand of labourers; but we must not forget, that wages are also regulated by the prices of the commodities on which they are expended.

As population increases, these necessaries will be constantly rising in price,^{5.26} because more labour will be necessary to produce them. If, then, the money wages of labour should fall, whilst every commodity on which the wages of labour were expended rose, the labourer would be doubly affected, and would be soon totally deprived of subsistence. Instead, therefore, of the money wages of labour falling, they would rise; but they would not rise sufficiently to enable the labourer to purchase as many comforts and necessaries as he did before the rise in the price of those commodities. If his annual wages were before £24, or six quarters of corn when the price was £4 per quarter, he would probably receive only the value of five quarters when corn rose to £5 per quarter. But five quarters would cost £25; he would therefore receive an addition in his money wages, though with that addition he would be unable to furnish himself with the same quantity of corn and other commodities, which he had before consumed in his family.

Notwithstanding, then, that the labourer would be really worse paid, yet this increase in his wages would necessarily diminish the profits of the manufacturer; for his goods would sell at no higher price, and yet the expense of producing them would be increased. This, however, will be considered in our examination into the principles which regulate profits.^{5.27}

It appears, then, that the same cause which raises rent, namely, the increasing difficulty of providing an additional quantity of food with the same proportional quantity of labour, will also raise wages; and therefore if money be of an unvarying value, both rent and wages will have a tendency to rise with the progress of wealth and population.^{5.28}

But there is this essential difference between the rise of rent and the rise of wages.^{5.29} The rise in the money value of rent is accompanied by an increased share of the produce; not only is the landlord's money rent greater, but his corn rent also; he will have more corn, and each defined measure of that corn will exchange for a greater quantity of all other goods which have not been raised in value. The fate of the labourer will be less happy; he will receive more money wages, it is true, but his corn wages will be reduced; and not only his command of corn, but his general condition will be deteriorated, by his finding it more difficult to maintain the market rate of wages above their natural rate. While the price of corn rises 10 per cent, wages will always rise less than 10 per cent, but rent will always rise more; the condition of the labourer will generally decline, and that of the landlord will always be improved.

When wheat was at £4 per quarter, suppose the labourer's wages to be £24 per annum, or the value of six quarters of wheat, and suppose half his wages to be expended on wheat, and the other half, or £12, on other things. He would receive^{5.30}

£24 14s.	} when wheat was at	£4 4s. 8d.	} or the value of	5.83 qrs.
£25 10s.		£4 10s.		5.66 qrs.
£26 8s.		£4 16s.		5.50 qrs.
£27 8s. 6d.		£5 2s. 10d.		5.33 qrs.

He would receive these wages to enable him to live just as well, and no better, than ^{5.31} before; for when corn was at £4 per quarter, he would expend for three quarters of corn, at £4 per quarter

.....	£12
and on other things . . .	£12
	<hr/>
	£24

When wheat was £4 4*s.* 8*d.*, three quarters, which he and his family consumed, would cost him

.....	£12 14 <i>s.</i>
other things not altered in price . . .	£12
	<hr/>
	£24 14 <i>s.</i>

When at £4 10*s.*, three quarters of wheat would cost

.....	£13 10 <i>s.</i>
and other things . . .	£12
	<hr/>
	£25 10 <i>s.</i>

When at £4 16*s.*, three quarters of wheat

.....	£14 8 <i>s.</i>
Other things . . .	£12
	<hr/>
	£26 8 <i>s.</i>

When at £5 2*s.* 10*d.* three quarters of wheat would cost

.....	£15 8 <i>s.</i> 6 <i>d.</i>
Other things . . .	£12
	<hr/>
	£27 8 <i>s.</i> 6 <i>d.</i>

In proportion as corn became dear, he would receive less corn wages, but his ^{5.32} money wages would always increase, whilst his enjoyments, on the above supposition, would be precisely the same. But as other commodities would be raised in price in proportion as raw produce entered into their composition, he would have more to pay for some of them. Although his tea, sugar, soap, candles, and house rent, would probably be no dearer, he would pay more for his bacon, cheese, butter, linen, shoes, and cloth; and therefore, even with the above increase

of wages, his situation would be comparatively worse. But it may be said that I have been considering the effect of wages on price, on the supposition that gold, or the metal from which money is made, is the produce of the country in which wages varied; and that the consequences which I have deduced agree little with the actual state of things, because gold is a metal of foreign production. The circumstance, however, of gold being a foreign production, will not invalidate the truth of the argument, because it may be shewn, that whether it were found at home, or were imported from abroad, the effects ultimately and, indeed, immediately would be the same.

When wages rise, it is generally because the increase of wealth and capital have^{5.33} occasioned a new demand for labour, which will, infallibly be attended with an increased production of commodities. To circulate these additional commodities, even at the same prices as before, more money is required, more of this foreign commodity from which money is made, and which can only be obtained by importation. Whenever a commodity is required in greater abundance than before, its relative value rises comparatively with those commodities with which its purchase is made. If more hats were wanted, their price would rise, and more gold would be given for them. If more gold were required, gold would rise, and hats would fall in price, as a greater quantity of hats and of all other things would then be necessary to purchase the same quantity of gold. But in the case supposed, to say that commodities will rise, because wages rise, is to affirm a positive contradiction; for we first say that gold will rise in relative value in consequence of demand, and secondly, that it will fall in relative value because prices will rise, two effects which are totally incompatible with each other. To say that commodities are raised in price, is the same thing as to say that money is lowered in relative value; for it is by commodities that the relative value of gold is estimated. If then all commodities rose in price, gold could not come from abroad to purchase those dear commodities, but it would go from home to be employed with advantage in purchasing the comparatively cheaper foreign commodities. It appears, then, that the rise of wages will not raise the prices of commodities, whether the metal from which money is made be produced at home or in a foreign country. All commodities cannot rise at the same time without an addition to the quantity of money. This addition could not be obtained at home, as we have already shewn; nor could it be imported from abroad. To purchase any additional quantity of gold from abroad, commodities at home must be cheap, not dear. The importation of gold, and a rise in the price of all home-made commodities with which gold is purchased or paid for, are effects absolutely incompatible. The extensive use of paper money does not alter this question, for paper money conforms, or ought to conform, to the value of gold, and therefore its value is influenced by such causes only as influence the value of that metal.

These then are the laws by which wages are regulated, and by which the happiness^{5.34} of far the greatest part of every community is governed. Like all other contracts, wages should be left to the fair and free competition of the market, and should never be controlled by the interference of the legislature.

The clear and direct tendency of the poor laws, is in direct opposition to these^{5.35} obvious principles: it is not, as the legislature benevolently intended, to amend the condition of the poor, but to deteriorate the condition of both poor and rich; instead of making the poor rich, they are calculated to make the rich poor; and whilst the

present laws are in force, it is quite in the natural order of things that the fund for the maintenance of the poor should progressively increase, till it has absorbed all the net revenue of the country, or at least so much of it as the state shall leave to us, after satisfying its own never failing demands for the public expenditure.^{15*}

This pernicious tendency of these laws is no longer a mystery, since it has been fully developed by the able hand of Mr. Malthus; and every friend to the poor must ardently wish for their abolition. Unfortunately, however, they have been so long established, and the habits of the poor have been so formed upon their operation, that to eradicate them with safety from our political system, requires the most cautious and skilful management. It is agreed by all who are most friendly to a repeal of these laws, that if it be desirable to prevent the most overwhelming distress to those for whose benefit they were erroneously enacted, their abolition should be effected by the most gradual steps. 5.36

It is a truth which admits not a doubt, that the comforts and well-being of the poor cannot be permanently secured without some regard on their part, or some effort on the part of the legislature, to regulate the increase of their numbers, and to render less frequent among them early and improvident marriages. The operation of the system of poor laws has been directly contrary to this. They have rendered restraint superfluous, and have invited imprudence, by offering it a portion of the wages of prudence and industry.^{16*} 5.37

The nature of the evil points out the remedy. By gradually contracting the sphere of the poor laws; by impressing on the poor the value of independence, by teaching them that they must look not to systematic or casual charity, but to their own exertions for support, that prudence and forethought are neither unnecessary nor unprofitable virtues, we shall by degrees approach a sounder and more healthful state. 5.38

No scheme for the amendment of the poor laws merits the least attention, which has not their abolition for its ultimate object; and he is the best friend to the poor, and to the cause of humanity, who can point out how this end can be attained with the most security, and at the same time with the least violence. It is not by raising in any manner different from the present, the fund from which the poor are supported, that the evil can be mitigated. It would not only be no improvement, but it would be an aggravation of the distress which we wish to see removed, if the fund were increased in amount, or were levied according to some late proposals, as a general fund from the country at large. The present mode of its collection and application has served to mitigate its pernicious effects. Each parish raises a separate fund for the support of its own poor. Hence it becomes an object of more interest and more practicability to keep the rates low, than if one general fund were raised for the relief of the poor of the whole kingdom. A parish is much more interested in an economical collection of the rate, and a sparing distribution of relief, when the whole saving will be for its own benefit, than if hundreds of other parishes were to partake of it. 5.39

It is to this cause, that we must ascribe the fact of the poor laws not having yet absorbed all the net revenue of the country; it is to the rigour with which they are applied, that we are indebted for their not having become overwhelmingly oppressive. If by law every human being wanting support could be sure to obtain it, and obtain it in such a degree as to make life tolerably comfortable, theory would

lead us to expect that all other taxes together would be light compared with the single one of poor rates. The principle of gravitation is not more certain than the tendency of such laws to change wealth and power into misery and weakness; to call away the exertions of labour from every object, except that of providing mere subsistence; to confound all intellectual distinction; to busy the mind continually in supplying the body's wants; until at last all classes should be infected with the plague of universal poverty. Happily these laws have been in operation during a period of progressive prosperity, when the funds for the maintenance of labour have regularly increased, and when an increase of population would be naturally called for. But if our progress should become more slow; if we should attain the stationary state, from which I trust we are yet far distant, then will the pernicious nature of these laws become more manifest and alarming; and then, too, will their removal be obstructed by many additional difficulties.