Chapter XXI.

Of Distribution, As Affected By Exchange.

§ 1. Exchange and money make no Difference in the law of Wages.

The division of the produce among the three classes, laborers, capitalists, and landlords, when considered without any reference to exchange, appeared to depend on certain general laws. It is fit that we should now consider whether these same laws still operate, when the distribution takes place through the complex mechanism of exchange and money; or whether the properties of the mechanism interfere with and modify the presiding principles.

The primary division of the produce of human exertion and frugality is, as we have seen, into three shares--wages, profits, and rents; and these shares are portioned out, to the persons entitled to them, in the form of money and by a process of exchange; or, rather, the capitalist, with whom in the usual arrangements of society the produce remains, pays in money, to the other two sharers, the market value of their labor and land. If we examine on what the pecuniary value of labor and the pecuniary value of the use of land depend, we shall find that it is on the very same causes by which we found that wages and rent would be regulated if there were no money and no exchange of commodities.

It is evident, in the first place, that the law of wages is not affected by the existence or non-existence of exchange or money. Wages depend on the ratio between population and capital [taking into account the nature of a country's industries]; and would do so if all the capital in the world were the property of one association, or if the capitalists among whom it is shared maintained each an establishment for the production of every article consumed in the community, exchange of commodities having no existence. As the ratio between capital and population, everywhere but in new colonies, depends on the strength of the checks by which the too rapid increase of population is restrained, it may be said, popularly speaking, that wages depend on the checks to population; that, when the check is not death by starvation or disease, wages depend on the prudence of the laboring people; and that wages in any country are habitually at the lowest rate to which in that country the laborer will suffer them to be depressed rather than put a restraint upon multiplication.

What is here meant, however, by wages, is the laborer's real scale of comfort; the quantity he obtains of the things which nature or habit has made necessary or agreeable to him: wages in the sense in which they are of importance to the receiver. In the sense in which they are of importance to the payer, they do not depend exclusively on such simple principles. Wages in the first sense, the wages on which the laborer's comfort depends, we will call real wages, or wages in kind. Wages in the second sense we may be permitted to call, for the present, money wages; assuming, as it is allowable to do, that money remains for the time an invariable standard, no alteration taking place in the conditions under which the circulating medium itself is produced or obtained. If money itself undergoes no variation in cost, the money price of labor is an exact measure of the cost of labor, and may be made use of as a convenient symbol to express it [if the efficiency of labor also be supposed to remain the same].

The money wages of labor are a compound result of two elements: first, real wages, or wages in kind, or, in other words, the quantity which the laborer obtains of the ordinary articles of consumption; and, secondly, the money prices of those articles. In all old countries--all countries in which the increase of population is in any degree checked by the difficulty of obtaining subsistence--the habitual money price of labor is that which will just enable the laborers, one with another, to purchase the commodities without which they either can not or will not keep up the population at its customary rate of increase. Their standard of comfort being given (and by the standard of comfort in a laboring class is meant that rather than forego which they will abstain from multiplication), money wages depend on the money price, and therefore on the cost of production, of the various articles which the laborers habitually consume: because, if their wages can not procure them a given quantity of these, their increase will slacken and their wages rise. Of these articles, food and other agricultural produce are so much the principal as to leave little influence to anything else.

It is at this point that we are enabled to invoke the aid of the principles which have been laid down in this Third Part. The cost of production of food and agricultural produce has been analyzed in a preceding chapter. It depends on the productiveness of the least fertile land, or of the least productively employed portion of capital, which the necessities of society have as yet put in requisition for agricultural purposes. The cost of production of the food grown in these least advantageous circumstances determines, as we have seen, the exchange value and money price of the whole. In any given state, therefore, of the laborers' habits, their money wages depend on the productiveness of the least fertile land, or least productive agricultural capital: on the point which cultivation has reached in its downward progress--in its encroachments on the barren lands, and its gradually increased strain upon the powers of the more fertile. Now, the force which urges cultivation in this downward course is the increase of people; while the counter-force, which checks the descent, is the improvement of agricultural science and practice, enabling the same soil to yield to the same labor more ample returns. The costliness of the most costly part of the produce of cultivation is an exact expression of the state, at any given moment, of the race which population and agricultural skill are always running against each other.

It will be noted, in this exposition, that Mr. Mill has in view an old country, with a population so dense that numbers are always pressing close upon subsistence; that their wages are so low as to give the laborers little more than the necessary wants of life. That these are not the economic conditions in the United States goes without saying. First of all, the margin of cultivation is high: only soils of high productiveness are in cultivation, and the returns to labor and capital are, consequently, very large. High wages are found together with low prices of food. The existing population is not so numerous as to require for the cultivation of food any but lands of a very high grade of fertility. The ability to command a high reward for labor (as compared with European industries), owing to the general prevalence of high returns in the United States, has resulted in the establishment of a higher standard for our laborers. The standard being relatively so high, there is no intimate connection between the increase of population here and the price of food; for, as a rule, wages are not so low that any change in the cost of producing food would require checks upon population. There is a considerable margin above necessaries, in the laborer's real wages in the United States, which may go for comforts, decencies, and amusements.

---

§ 2. In the law of Rent.

The degree of productiveness of this extreme margin is an index to the existing state of the distribution of the produce among the three classes, of laborers, capitalists, and landlords. When the demand of an increasing population for more food can not be satisfied without extending cultivation to less fertile land, or incurring additional outlay, with a less proportional return, on land already in cultivation, it is a necessary condition of this increase of agricultural produce that the value and price of that produce must first rise. The price of food will always on the average be such that the worst land, and the least productive installment of the capital employed on the better lands, shall just replace the expenses with the ordinary profit. If the least favored land and capital just do thus much, all other land and capital will yield an extra profit, equal to the proceeds of the extra produce due to their superior productiveness; and this extra profit becomes, by competition, the prize of the landlords. Exchange and money, therefore, make no difference in the law of rent: it is the same as we originally(293) found it. Rent is the extra return made to agricultural capital when employed with peculiar advantages; the exact equivalent of what those advantages enable the producers to economize in the cost of production: the value and price of the produce being regulated by the cost of production to those producers who have no advantages; by the return to that portion of agricultural capital the circumstances of which are the least favorable.

---

§ 3. --Nor in the law of Profits.

Wages and rent being thus regulated by the same principles when paid in money, as they would be if apportioned in kind, it follows that Profits are so likewise. For the surplus, after replacing wages and paying rent, constitutes Profits.

We found, in the last chapter of the Second Book, that the advances of the capitalist, when analyzed to their ultimate elements, consist either in the purchase or maintenance of labor, or in the profits of former capitalists; and that, therefore, profits in the last resort depend upon the Cost of Labor, falling as that rises, and rising as it falls. Let us endeavor to trace more minutely the operation of this law.

There are two modes in which the Cost of Labor, which is correctly represented (money being supposed invariable as well as efficiency) by the money wages of the laborer, may be increased. The laborer may obtain greater comforts; wages in kind--real wages--may rise. Or the progress of population may force down cultivation to inferior soils and more costly processes; thus raising the cost of production, the value, and the price, of the chief articles of the laborer's consumption. On either of these suppositions the rate of profit will fall.

If the laborer obtains more abundant commodities only by reason of their greater cheapness, if he obtains a greater quantity, but not on the whole a greater cost, real wages will be increased, but not money wages, and there will be nothing to affect the rate of profit. But, if he obtains a greater quantity of commodities of which the cost of production is not lowered, he obtains a greater cost; his money wages are higher. The expense of these increased money wages falls wholly on the capitalist. There are no conceivable means by which he can shake it off. It may be said--it used formerly to be said--that he will get rid of it by raising his price. But this opinion we have already, and more than once, fully refuted.(294)

The doctrine, indeed, that a rise of wages causes an equivalent rise of prices, is, as we formerly observed, self-contradictory: for, if it did so, it would not be a rise of wages; the laborer would get no more of any commodity than he had before, let his money wages rise ever so much; a rise of real wages would be an impossibility. This being equally contrary to reason and to fact, it is evident that a rise of money wages does not raise prices; that high wages are not a cause of high prices. A rise of general wages falls on profits. There is no possible alternative.

Having disposed of the case in which the increase of money wages, and of the Cost of Labor, arises from the laborer's obtaining more ample wages in kind, let us now suppose it to arise from the increased cost of production of the things which he consumes, owing to an increase of population unaccompanied by an equivalent increase of agricultural skill. The augmented supply required by the population would not be obtained, unless the price of food rose sufficiently to remunerate the farmer for the increased cost of production. The farmer, however, in this case sustains a twofold disadvantage. He has to carry on his cultivation under less favorable conditions of productiveness than before. For this, as it is a disadvantage belonging to him only as a farmer, and not shared by other employers, he will, on the general principles of value, be compensated by a rise of the price of his commodity; indeed, until this rise has taken place, he will not bring to market the required increase of produce. But this very rise of price involves him in another necessity, for which he is not compensated. He must pay higher money wages to his laborers [if they retain the same quantity of real wages]. This necessity, being common to him with all other capitalists, forms no ground for a rise of price. The price will rise, until it has placed him in as good a situation, in respect of profits, as other employers of labor; it will rise so as to indemnify him for the increased labor which he must now employ in order to produce a given quantity of food; but the increased wages of that labor are a burden common to all, and for which no one can be indemnified. It will be paid wholly from profits.

Thus we see that increased wages, when common to all descriptions of productive laborers, and when really representing a greater Cost of Labor, are always and necessarily at the expense of profits. And by reversing the cases, we should find in like manner that diminished wages, when representing a really diminished Cost of Labor, are equivalent to a rise of profits. But the opposition of pecuniary interest thus indicated between the class of capitalists and that of laborers is to a great extent only apparent. Real wages are a very different thing from the Cost of Labor, and are generally highest at the times and places where, from the easy terms on which the land yields all the produce as yet required from it, the value and price of food being low, the cost of labor to the employer, notwithstanding its ample remuneration, is comparatively cheap, and the rate of profit consequently high, as at present in the United States. We thus obtain a full confirmation of our original theorem that Profits depend on the Cost of Labor: or, to express the meaning with still greater accuracy, the rate of profit and the cost of labor vary inversely as one another, and are joint effects of the same agencies or causes.

BOOK IV. INFLUENCE OF THE PROGRESS OF SOCIETY ON PRODUCTION AND DISTRIBUTION.