against each other or against money gives rise to the notion of value. This word has two meanings—that of utility, and that of purchasing power; the one may be called value in use, the other value in ex­change. Merely mentioning the former, Smith goes on to study the latter. What, he asks, is the measure of value? what regulates the amount of one thing which will be given for another? “ Labour,” Smith answers, "is the real measure of the exchangeable value of all commodities.” “ Equal quantities of labour at all times and places, are of equal value to the labourer.” "Labour alone, therefore, 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. It is their real price; money is their nominal price only.” Money, however, is in men’s actual trans­actions the measure of value, as well as the vehicle of exchange; and the precious metals are best suited for this function, as varying little in their own value for periods of moderate length; for distant times, corn is a better standard of comparison. In relation to the earliest social stage, we need consider nothing but the amount of labour employed in the production of an article as determining its ex­change value; but in more advanced periods price is complex, and consists in the most general case of three elements—wages, profit and rent. Wages are the reward of labour. Profit arises as soon as stock, being accumulated in the hands of one person, is employed by him in setting others to work, and supplying them with materials and subsistence, in order to make a gain by what they produce. Rent arises as soon as the land of a country has all become private property; “ the landlords, like all other men, love to reap where they never sowed, and demand a rent even for its natural produce.” In every improved society, then, these three elements enter more or less into the price of the far greater part of commodities. There is in every society or neighbourhood, an ordinary or average rate of wages and profit in every different employment of labour and stock, regu­lated by principles to be explained hereafter, as also an ordinary or average rate of rent. These may be called the natural rates at the time when and the place where they prevail; and the natural price of a commodity is what is sufficient to pay for the rent of the land, the wages of the labour, and the profit of the stock necessary for bringing the commodity to market. The market price may rise above or fall below the amount so fixed, being determined by the proportion between the quantity brought to market and the demand of those who are willing to pay the natural price. Towards the natural price as a centre the market-price, regulated by competition, con­stantly gravitates. Some commodities, however, are subject to a monopoly of production, whether from the peculiarities of a locality or from legal privilege: their price is always the highest that can be got; the natural price of other commodities is the lowest which can be taken for any length of time together. The three component parts or factors of price vary with the circum­stances of the society. The rate of wages is determined by a “ dis­pute ” or struggle of opposite interests between the. employer and the workman. A minimum rate is fixed by the condition that they must be at least sufficient to enable a man and his wife to maintain themselves and, in general, bring up a family. The excess above this will depend on the circumstances of the country, and the con­sequent demand for labour—wages being high when national wealth is increasing, low when it is declining. The same circumstances determine the variation of profits, but in an opposite direction; the increase of stock, which raises wages, tending to lower profit through the mutual competition of capitalists. “ The whole of the advantages and disadvantages of the different employments of labour and stock must, in the same neighbourhood, be either perfectly equal or con­tinually tending to equality if one had greatly the advantage over the others, people would crowd into it, and the level would soon" be restored. Yet pecuniary wages and profits are very different in different employments—either from certain circumstances affecting the employments, which recommend or disparage them in. men’s notions, or from national policy, “ which nowhere leaves things at perfect liberty.” Here follows Smith’s admirable exposition of the causes which produce the inequalities in wages and profits just referred to, a passage affording ample evidence of his habits of nice observation of the less obvious traits in human nature, and also of the operation both of these and of social institutions on economic facts. The rent of land comes next to be considered, as the last of the three elements of price. Rent is a monopoly price, equal, not to what the landlord could afford to take, but to what the farmer can afford to give. “ Such parts only of the produce of land can commonly be brought to market, of which the ordinary price is sufficient to replace the stock which must be employed in bringing them thither, together with the ordinary profits. If the ordinary price is more than this, the surplus part will naturally go to the rent of the land. If it is not more, though the commodity may be brought to market, it can afford no rent to the landlord. Whether the price is or is not more depends on the demand.” “ Rent, therefore, enters into the price of commodities in a different way from wages and profits. High or low wages and profit are the causes of high or low price; high or low rent is the effect of it.”

Rent, wages and profits, as they are the elements of price, are also the constituents of income; and the three great orders of every civilized society, from whose revenues that of every other order is ultimately derived, are the landlords, the labourers and the capital­ists. The relation of the interests of these three classes to those of society at large is different. The interest of the landlord always coincides with the general interest: whatever promotes or obstructs the one has the same effect on the other. So also does that of the labourer: when the wealth of the nation is progressive, his wages are high; they are low when it is stationary or retrogressive. “ The interest of the third order has not the same connexion with the general interest of the society as that of the other two ; . . . it is always in some respects different from and opposite to that of the public.”

The subject of the second book is "the nature, accumulation and improvement of stock.” A man’s whole stock consists of two portions—that which is reserved for his immediate consumption, and that which is employed so as to yield a revenue to its owner. This latter, which is his “ capital,” is divisible into the two classes of “ fixed ” and “ circulating.” The first is such as yields a profit without passing into other hands. The second consists of such goods, raised, manufactured or purchased, as are sold for a profit and replaced by other goods; this sort of capital is therefore con­stantly going from and returning to the hands of its owner. The whole capital of a society falls under the same two heads. Its fixed capital consists chiefly of (1) machines, (2) buildings which are the means of procuring a revenue, (3) agricultural improve­ments and (4) the acquired and useful abilities of all members of the society (since sometimes known as “ personal capital ”). Its circulating capital is also composed of four parts—(1) money, (2) provisions in the hands of the dealers, (3) materials and (4) com­pleted work in the hands of the manufacturer or merchant. Next comes the distinction of the gross national revenue from the net— the first being the whole produce of the land and labour of a country', the second what remains after deducting the expense of maintaining the fixed capital of the country and that part of its circulating capital which consists of money. Money, “ the great wheel of circulation,” is altogether different from the goods which are circulated by means of it; it is a costly instrument by means of which all that each individual receives is distributed to him; and the expenditure required, first to provide it, and afterwards to maintain it, is a deduction from the net revenue of the society. In development of this consideration, Smith goes on to explain the gain to the com­munity arising from the substitution of paper money for that com­posed of the precious metals; and here occurs the remarkable illustration in which the use of gold and silver money is compared to a highway on the ground, that of paper money to a wagon way through the air. In proceeding to consider the accumulation of capital, he is led to the distinction between productive and unpro­ductive labour—the former being that which is fixed or realized in a particular object or vendible article, the latter that which is not so realized. The former is exemplified in the labour of the manu­facturing workman, the latter in that of the menial servant. A broad line of demarcation is thus drawn between the labour which results in commodities or increased value of commodities, and that which does no more than render services: the former is productive, the latter unproductive. “ Productive ” is by no means equivalent to “ useful the labours of the magistrate, the soldier, the church­man, lawyer and physician, are, in Smith’s sense, unproductive. Productive labourers alone are employed out of capital; unpro­ductive labourers, as well as those who do not labour at all, are all maintained by revenue. In advancing industrial communities, the portion of annual produce set apart as capital, bears an increasing proportion to that which is immediately destined to constitute a revenue, either as rent or as profit. Parsimony is the source of the increase of capital; by augmenting the fund devoted to the main­tenance of productive hands, it puts in motion an additional quantity of industry, which adds to the value of the annual produce. What is annually saved is as regularly consumed as what is spent, but by a different set of persons, by productive labourers instead of idlers or unproductive labourers; and the former reproduce with a profit the value of their consumption. The prodigal, encroaching on his capital, diminishes, as far as in him lies, the amount of productive labour, and so the wealth of the country; nor is this result affected by his expenditure being on home-made, as distinct from foreign commodities. Every prodigal, therefore, is a public enemy ; every frugal man a public benefactor. The only mode of increasing the annual produce of the land and labour is to increase either the number of productive labourers or the productive powers of those labourers. Either process will in general require additional capital, the former to maintain the new labourers, the latter to provide improved machinery or to enable the employer to introduce a more complete division of labour. In what are commonly called loans of money, it is not really the money, but the money’s worth, that the borrower wants; and the lender really assigns to him the right to a certain portion of the annual produce of the land and labour of the country. As the general capital of a country increases, so also does the par­ticular portion of it from which the possessors wish to derive a revenue without being at the trouble of employing it themselves, and, as the quantity of stock thus available for loans is augmented, the interest diminishes, not merely “ from the general causes which make the market price of things commonly diminish as their quantity increases,” but because, with the increase of capital, "it becomes gradually more and more difficult to find within the country a