

### AMBIGUOUS TERMS IN POLITICAL ECONOMY.

[We extract the following from Archbishop Whately's admirable work—"Elements of Logic."]

"The foundations of Political Economy being a few general propositions deduced from observation or from consciousness, and generally admitted as soon as stated, it might have been expected that there would be as little difference of opinion among Political Economists as among Mathematicians;—that, being agreed in their premises, they could not differ in their conclusions, but through some error in reasoning, so palpable as to be readily detected. And if they had possessed a vocabulary of general terms as precisely defined as the mathematical, this would probably have been the case. But as the terms of this Science are drawn from common discourse, and seldom carefully defined by the writers who employ them, hardly one of them has any settled and invariable meaning, and their ambiguities are perpetually overlooked. The principal terms are only seven, viz. :—VALUE, WEALTH, LABOR, CAPITAL, RENT, WAGES, PROFITS.

"1. VALUE.—As value is the only relation with which Political Economy is conversant, we might expect all Economists to be agreed as to its meaning. There is no subject as to which they are less agreed.

"The popular, and far the most convenient, use of the word, is to signify the capacity of being given and received in exchange. So defined, it expresses a relation. The value of any one thing must consist in the several quantities of all other things which can be obtained in exchange for it, and can never remain fixed for an instant. Most writers admit the propriety of this definition at the outset, but they scarcely ever adhere to it.

"Adam Smith defines Value to mean either the utility of a particular object, or the power of purchasing other goods which the possession of that object conveys. The first he calls 'Value in use,' the second 'Value in exchange.' But he soon afterwards says, that equal quantities of labor at all times and places are of equal value to the laborer, whatever may be the quantity of goods he receives in return for them; and that labor never varies in its own Value. It is clear that he affixed, or thought he had affixed, some other meaning to the word; as the first of these propositions is contradictory, and the second false, whichever of his two definitions we adopt.

"Mr. Ricardo appears to set out by admitting Adam Smith's definition of Value in exchange. But in the greater part of his 'Principles of Political Economy,' he uses the word as synonymous with *Cost*: and by this one ambiguity has rendered his great work a long enigma.

"Mr. Malthus defines Value to be the power of purchasing. In the very next page he distinguishes absolute from relative Value, a distinction contradictory to his definition of the term, as expressive of a relation.

"Mr. McCulloch distinguishes between real and exchangeable, or relative, Value. And in his nomenclature, the exchangeable, or relative, Value of a commodity consists in its capacity of purchasing,—its real Value in the quantity of labor required for its production or appropriation.

"All these differences appear to arise from a confusion of cause and effect. Having decided that commodities are valuable in proportion to the labor they have respectively cost, it was natural to call that labour their Value.

"2. WEALTH.—Lord Lauderdale has defined Wealth to be 'all that man desires.' Mr. Malthus, 'those material objects which are necessary, useful, or agreeable.' Adam Smith confines the term to that portion of the results of land and labor which is capable of being accumulated. The French Economists, to the net product of land. Mr. McCulloch and M. Storch, to those material products which have changeable value; according to Colonel Torrens, it consists of articles which possess utility and are produced by some portion of voluntary effort. M. Say divides Wealth into natural and social, and applies the latter term to whatever is susceptible of exchange. It will be observed that the principal difference between these definitions consists in the admission or rejection of the qualifications 'exchangeable' and 'material.'

"It were well if the ambiguities of this word had done no more than puzzle philosophers. One of them gave birth to the mercantile system. In common language, to grow rich is to get money; to diminish in fortune is to lose money; a rich man is said to have a great deal of money; a poor man, very little; and the terms 'Wealth' and 'Money' are in short applied as synonymous. In consequence of these popular notions (to use the words of Adam Smith) all the different nations of Europe have studied every means of accumulating gold and silver in their respective countries. Thus they have attempted by prohibiting the exportation of money, and by giving bounties on the exportation, and imposing restrictions on the importation, of other commodities, in the hope of producing what has been called a 'favourable balance of trade'; that is, a trade in which the imports being always of less value than the exports, the difference is paid in money; a conduct as wise as that of a tradesman who should part with his goods only for money; and instead of employing their price in paying his workmen's wages, or replacing his stock, should keep it for ever in his till. The attempt to force such a trade has been as vain, as the trade, if it could have been obtained, would have been mischievous. But the results have been fraud, punishment, and poverty at home, and discord and war without. It has made nations consider the Wealth of their customers a source of loss instead of profit; and an advantageous market a curse instead of a blessing. By inducing them to refuse to profit by the peculiar advantages in climate, soil, or industry, possessed by their neighbours, it has forced them in a great measure to give up their own. It has for centuries done more, and perhaps for centuries to come will do more, to retard the improvement of Europe than all other causes put together.

"3. LABOR.—The word "Labor" signifies both the *act* of laboring, and the *result* of that act. It is used in the first sense when we talk of the wages of labor; in the second when we talk of accumulated labor. When used to express the act of laboring, it may appear to have a precise sense, but it is still subject to some ambiguity. Say's definition is, 'ac-

tion suivie, dirigée vers un but.' Storch's, 'l'action des facultés humaines dirigée vers un but utile.' These definitions include a walk taken for the purposes of health, and even the exertions of an agreeable converser.

"The great defect of Adam Smith, and of our own economists in general, is the want of definitions. There is, perhaps, no definition of Labor by any British Economist. If Adam Smith had framed one, he would probably have struck out his celebrated distinction between 'productive' and 'unproductive' labors; for it is difficult to conceive any definition of Labor which will admit the epithet 'unproductive' to be applied to any of its subdivisions, excepting that of *misdirected* labor. On the other hand, if Mr. McCulloch or Mr. Mill had defined Labor, they would scarcely have applied that term to the growth of a tree, or the improvement of wine in a cellar.

"4. CAPITAL.—This word, as it ought to have been expected, from the complexity of the notions which it implies, has been used in very different senses.

"It is, as usual, undefined by Adam Smith. The general meaning which he attached to it will however appear from his enumeration of its species. He divides it into *Fixed* and *Circulating*; including in the first what the capitalist retains, in the second what he parts with. *Fixed* Capital he subdivides into—1. Machinery; 2. Shops and other buildings used for trade or manufacture; 3. Improvements of land; 4. Knowledge and skill. *Circulating* Capital he subdivides into—1. Money; 2. Provisions in the hands of the provision-venders; 3. Unfinished materials of manufacture; 4. Finished work in the hands of the merchant or manufacturer; such as furniture in a cabinet-maker's shop, or trinkets in that of a jeweller.

"The following is a list of the definitions adopted by some of the most eminent subsequent economists.

"Ricardo—'That part of the wealth of a country which is employed in production; consisting of food, clothing, tools, raw materials, machinery, &c., necessary to give effect to labor.'

"Malthus—'That portion of the material possessions of a country which is destined to be employed with a view to profit.'

"Say—'Accumulation de valeurs soustraites à la consommation improductive.' Chap. iii. 'Machinery, necessaries of the workman, materials.'

"Storch—'Un fonds de richesses destiné à la production matérielle.'

"McCulloch—'That portion of the produce of industry, which can be made directly available to support human existence or facilitate production.'

"Mill—'Something produced for the purpose of being employed as the mean towards a further production.'

"Torrens—'Those things on which labor has been bestowed, and which are destined, not for the immediate supply of our wants, but to aid us in obtaining other articles of utility.'

"It is obvious that few of these definitions exactly coincide. Adam Smith's (as implied in his use of the term, for he gives no formal definition) excludes the necessaries of the laborer, when in his own possession; all the rest (and perhaps with better reason) admit them. On the other hand, Adam Smith admits (and in that he seems to be right) those things which are incapable of productive consumption, provided they have not yet reached their consumers. All the other definitions, except perhaps that of Mr. Malthus, which is ambiguous, are subject to the inconsistency of affirming that a diamond, and the gold in which it is to be set, are Capital while the jeweller keeps them separate, but cease to be so when he has formed them into a ring, almost all of them, also, pointedly exclude knowledge and skill. The most objectionable, perhaps, is that of Mr. McCulloch, which, while it excludes all the finished contents of a jeweller's shop, would include a racing-stud.

"Adam Smith, however, is far from being consistent in his use of the word; thus, in the beginning of his second book he states, that all Capitals are destined for the maintenance of productive labor only. It is difficult to see what labor is maintained by what is to be unproductively consumed.

#### 5. RENT. 6. WAGES. 7. PROFIT.

"Adam Smith first divided revenue into Rent, Wages, and Profit; and his division has been generally followed. The following definitions will best show the degree of precision with which these three terms have been employed.

ADAM SMITH.

"1. Rent.—What is paid for the license to gather the produce of the land.—Book I. Chap. vi.

"2. Wages.—The price of labor.—Book I. Chap. v.

"3. Profit.—The revenue derived from stock by the person who manages or employs it.—Book I. Chap. vi.

SAY.—(*Traité d'Economie Politique.*)—4ème. Edit.

"1. Rent.—Le profit résultant du service productif de la terre.—Tome II. p. 169.

"2. Wages.—Le prix de l'achat d'un service productif industriel.—Tome II. Chap. 503

"3. Profit.—La portion de la valeur produite, retirée par le capitaliste.—Tome I. p. 71, subdivided into intérêt, profit industriel, and profit capital.

STORCH.—(*Cours d'Economie Politique.*)—Paris, 1823.

"1. Rent.—Le prix qu'on paye pour l'usage d'un fonds de terre.—Tome I. p. 354.

"2. Wages.—Le prix du travail.—p. 283.

"3. Profit.—The returns to capital are considered by Storch, under the heads, *rente* of capital, and *profit* of the entrepreneur. The first he divides into *loyer*, the hire of fixed capital, and *intérêt*, that of circulating capital. The second he considers as composed of, 1st, remuneration for the use of capital; 2nd, assurance against risk; 3rd, remuneration for trouble.—Liv. III Chap. ii. viii. xiii.

SISMONDI.—(*Nouveau Principes, &c.*)

"1. Rent.—La part de la récolte annuelle du sol qui revient au propriétaire après qu'il a acquitté les frais qui l'ont fait naître; and he analyzes rent into, 1st, la compensation du travail de la terre; 2nd, le prix de monopole; 3rd, la mieux valeur que le propriétaire obtient par la