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**An Inquiry Into The Nature and Causes Of The Wealth Of Nations**

In Two Volumes

**Smith, Adam**

**London, 1776**

Article III. Taxes upon the Wages of Labour.

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likewise finally paid by the consumers of those liquors. Such taxes, though called by the same name, and levied by the same officers and in the same manner with the stamp-duties above mentioned upon the transference of property, are however of a quite different nature, and fall upon quite different funds.

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II.

## ARTICLE III.

*Taxes upon the Wages of Labour.*

THE wages of the inferior classes of workmen, I have endeavoured to show in the first book, are every where necessarily regulated by two different circumstances; the demand for labour, and the ordinary or average price of provisions. The demand for labour, according as it happens to be either increasing, stationary, or declining; or to require an increasing, stationary, or declining population, regulates the subsistence of the labourer, and determines in what degree it shall be, either liberal, moderate, or scanty. The ordinary or average price of provisions determines the quantity of money which must be paid to the workman in order to enable him, one year with another, to purchase this liberal, moderate, or scanty subsistence. While the demand for labour and the price of provisions, therefore, remain the same, a direct tax upon the wages of labour can have no other effect than to raise them somewhat higher than the tax. Let us suppose, for example, that in a particular place the demand for labour and the price of provisions were such as to render ten shillings a week the ordinary wages of labour; and that a tax of one-fifth, or four shillings in the pound, was imposed upon wages. If the demand for labour and the price of provisions remained the same, it would still be necessary that the labourer should in that place earn such a subsistence as could be bought only for ten shillings a week, or that after





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paying the tax he should have ten shillings a week free wages. But in order to leave him such free wages after paying such a tax, the price of labour must in that place soon rise, not to twelve shillings a week only, but to twelve and sixpence; that is, in order to enable him to pay a tax of one-fifth, his wages must necessarily soon rise, not one-fifth part only, but one-fourth. Whatever was the proportion of the tax, the wages of labour must in all cases rise, not only in that proportion, but in a higher proportion. If the tax, for example, was one-tenth, the wages of labour must necessarily soon rise, not one-tenth part only, but one-eighth.

A DIRECT tax upon the wages of labour, therefore, though the labourer might perhaps pay it out of his hand, could not properly be said to be even advanced by him; at least if the demand for labour and the average price of provisions remained the same after the tax as before it. In all such cases, not only the tax, but something more than the tax, would in reality be advanced by the person who immediately employed him. The final payment would in different cases fall upon different persons. The rise which such a tax might occasion in the wages of manufacturing labour would be advanced by the master manufacturer, who would both be entitled and obliged to charge it, with a profit, upon the price of his goods. The final payment of this rise of wages therefore, together with the additional profit of the master manufacturer, would fall upon the consumer. The rise which such a tax might occasion in the wages of country labour would be advanced by the farmer, who in order to maintain the same number of labourers as before would be obliged to employ a greater capital. In order to get back this greater capital, together with the ordinary profits of stock, it would be necessary that he should retain a larger portion, or what comes to the same thing, the price of a larger portion, of the produce of the land, and consequently that he should





should pay less rent to the landlord. The final payment of this rise of wages, therefore, would in this case fall upon the landlord, together with the additional profit of the farmer who had advanced it. In all cases a direct tax upon the wages of labour must, in the long run, occasion both a greater reduction in the rent of land, and a greater rise in the price of manufactured goods, than would have followed from the proper assessment of a sum equal to the produce of the tax, partly upon the rent of land, and partly upon consumable commodities.

If direct taxes upon the wages of labour have not always occasioned a proportionable rise in those wages, it is because they have generally occasioned a considerable fall in the demand for labour. The declension of industry, the decrease of employment for the poor, the diminution of the annual produce of the land and labour of the country, have generally been the effects of such taxes. In consequence of them, however, the price of labour must always be higher than it otherwise would have been in the actual state of the demand: and this enhancement of price, together with the profit of those who advance it, must always be finally paid by the landlords and consumers.

A TAX upon the wages of country labour does not raise the price of the rude produce of land; for the same reason that a tax upon the farmers profit does not raise that price.

ABSURD and destructive as such taxes are, however, they take place in many countries. In France that part of the taille which is charged upon the industry of workmen and day-labourers in country villages, is properly a tax of this kind. Their wages are computed according to the common rate of the district in which they reside, and that they may be as little liable as possible to any over-charge, their yearly gains are estimated at no more than two hundred





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hundred working days in the year\*. The tax of each individual is varied from year to year according to different circumstances, of which the collector or the commissary, whom the intendant appoints to assist him, are the judges. In Bohemia, in consequence of the alteration in the system of finances which was begun in 1748, a very heavy tax is imposed upon the industry of artificers. They are divided into four classes. The highest class pay a hundred florins a year; which, at two and twenty-pence halfpenny a florin, amounts to 9l. 7s. 6d. The second class are taxed at seventy; the third at fifty; and the fourth, comprehending artificers in villages and the lowest class of those in towns, at twenty-five florins †.

THE recompence of ingenious artists and of men of liberal professions, I have endeavoured to show in the first book, necessarily keeps a certain proportion to the emoluments of inferior trades. A tax upon this recompence, therefore, could have no other effect than to raise it somewhat higher than in proportion to the tax. If it did not rise in this manner, the ingenious arts and the liberal professions, being no longer upon a level with other trades, would be so much deserted that they would soon return to that level.

THE emoluments of offices are not, like those of trades and professions, regulated by the free competition of the market, and do not, therefore, always bear a just proportion to what the nature of the employment requires. They are, perhaps in most countries, higher than it requires; the persons who have the administration of government being generally disposed to reward both themselves and their immediate dependents rather more than enough. The emoluments of offices, therefore, can in most cases very well

\* Id. tom. ii. p. 108.

† Id. tom. iii. p. 87.

bear

