An Inquiry into the Principles of Political Economy
James Steuart

in which are particularly considered Population, Agriculture, Trade, Industry, Money, Coin, Interest, Circulation, Banks, Exchange, Public Credit, and Taxes

by Sir James Steuart, Bart.

Ore trabit quodcumque potest atque addit acervo.
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PREFACE

It is with the greatest diffidence that I present to the public this attempt towards reducing to principles, and forming into a regular science, the complicated interests of domestic policy. When I consider the time and labour employed in the composition, I am apt to value it from selfish considerations. When I compare it even with my own abilities, I still think favourably of it, for a better reason; because it contains a summary of the most valuable part of all my knowledge. But when I consider the greatness of my subject, how small does the result of my application appear!
The imperfections, therefore, discovered in this work, must be ascribed to the disproportion between the extent of the undertaking, and that of my capacity. This, I can assure my reader, has been exerted to the utmost: and if, after all, I have failed, it may, at least, with justice, be said, that I have miscarried in an attempt of the greatest importance to mankind.

I no where, I think, have shewn a desire to make my court to any particular minister, whose administration might have been hinted at. I have freely followed the thread of my reasoning without a bias, either in favour of popular opinions, or of any of the numberless systems which have been formed by those who have written upon particular parts of my subject. The warmth of my temper may have led me sometimes into commendations when I have been pleased; but when I felt the effects of ill humour on being dissatisfied with particular circumstances, relating to countries, to men, and to things, which I had in my eye at the time I was writing, I was immediately aware of the danger of blaming the steps of any administration, without being well formed of the whole combination of circumstances which the minister may have had before him at the time.

This composition being the successive labour of many years spent in travelling, the reader will find some passages in which the unities of time and place have not been observed. These I could have corrected with ease, had I not been advised to leave
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them as characters to point out the circumstances under which I
wrote, and thereby to confirm the authenticity of certain facts.

The modes of thinking, also, peculiar to the several
countries where I have lived, have, no doubt, had an influence on
what I have written concerning their customs: this work,
therefore, will not, in general, correspond to the meridian of
national opinions any where; and of this it is proper the reader
should be apprised, that he may not apply to the domestic
circumstances of his own country what was intended to refer to
those of other nations; nor impute to willful prejudice, what was
the irresistible effect of my experience and conviction.

Since the first publication of this work some criticisms upon
it have been published in which little regard has been paid to
this advertisement.

The greater part of it by far, (the three first books
particularly) was composed abroad. Can it be supposed, that
during an absence of near twenty years, I should in my studies
have all the while been modelling my speculations upon the
standard of English notions.

It has been alleged that I have imbibed prejudices abroad, by
no means consistent with the present state of England, and the
genius of Englishmen.

To which I answer, that I flatter myself to have imbibed no
prejudices either abroad or at home, at least I think I have
exhibited none of them in my work; because there I have rejected
all party opinions whatever.

According to my way of treating this subject no general rule
can be laid down in political matters: every thing there must be
considered according to the circumstances and spirit of the
nations to which they relate. Accordingly we shall find in this
inquiry some reasonings built on the principles of arbitrary
power, others on those of national liberty, others again on those
of democracy. Had I, in compliment to the sentiments of
Englishmen, suppressed every combination which might apply to the
circumstances of those very countries where I was studying my
subject, from the actual inspection of their policy, what merit
should I have had to plead with my own countrymen from my travels
and from my studies, any local English writer describing English
policy and sounding through every page the most peculiar opinions
of this nation, might have amused his readers far better than
ever I could pretend to.

If, from this work, I have any merit at all, it is by
divesting myself of English notions, so far as to be able to
expose in a fair light, the sentiments and policy of foreign
nations, relatively to their own situation.

Now the principal attention of an intelligent reader who
peruses a book like this, will be directed towards the
investigatory part of it: every step of the reasoning will be
weighed by him until the final conclusion be drawn; he will then
give his assent to it in proportion to the accuracy of the
induction; but he never will recoil from what he has once
assented to, in order to form a general notion conceding any
result by comparing it with his own animal feelings or with the
popular opinion of his countrymen.

This much I am obliged to say in my own justification, with
respect to several passages which have been written at times when
England was very distant from my thoughts.

I have read many authors on the subject of political
oeconomy; and I have endeavoured to draw from them all the
instruction I could. I have travelled, for many years, through
different countries, and have examined them, constantly, with an
eye to my own subject. I have attempted to draw information from every one with whom I have been acquainted: this, however, I found to be very difficult until I had attained to some previous knowledge of my subject. Such difficulties confirmed to me the justness of Lord Bacon's remark, that he who can draw information by forming proper questions, must be already possessed of half the science.

I could form no consistent plan from the various opinions I met with: hence I was engaged to compile the observations I had casually made, in the course of my travels, reading, and experience. From these I formed the following work after expunging the numberless inconsistencies and contradictions which I found had arisen from my separate inquiries into every particular branch.

I had observed so many persons declining in knowledge as they advanced in years, that I resolved early to throw upon paper whatever I had learned; and to this I used to have recourse, as others have to their memories. The unity of the object of all my speculations, rendered this practice more useful to me than it would be to one whose researches are more extended.

Whoever is much accustomed to write for his own use merely, must contract a more careless style than another who has made language his study, and who writes in hopes of acquiring a literary reputation. I never, till very lately, thought of appearing as an author on this subject; and in the frequent perusals of what I had written, my corrections were chiefly in favour of perspicuity. Add to this, that the language in which I now write was, for many years, foreign to those with whom I lived and conversed. When these circumstances are added to the intricacy of my subject, which constantly carried off my attention from every ornament of language, I flatter myself that those of my readers, at least, who enter as heartily as I have done into the spirit of this work, will candidly overlook the want of that elegance which adorns the style of some celebrated authors in this Augustan age.

I present this enquiry to the public as nothing more than an essay which may serve as a canvass for better hands than mine to work upon.

It contains such observations only as the general view of the domestic policy of the countries I have seen, has suggested. It is a speculation, and no more. It is a rough drawing of a mighty plan, proportioned in correctness to my own sagacity, to my knowledge of the subject, and to the extent of my ideas.

It goes little farther than to collect and arrange some elements relating to the most interesting branches of modern policy, such as population, agriculture, trade, industry, money, coin, interest, circulation, banks, exchange, public credit, and taxes. The principles deduced from all these topics, appear tolerably consistent; and the whole is a train of reasoning, through which I have adhered to the connection of subjects as faithfully as I could: but the nature of the work being a deduction of principles, not a collection of institutions, I seized the opportunities which my reasoning threw in my way, to connect every principle, as I went along, with every part of the inquiry to which it could refer; and when I found the connexion sufficiently shewn, I broke off such disquisitions as would have led me from the object then present.

When principles thus casually applied in one part, to matters intended to be afterwards treated of in another, came to be taken up a-new, they involved me in what may appear prolixity. This I found most unavoidable, when I was led to thoughts which were new
to myself, and consequently such as must have cost me the greatest labour to set in a clear and distinct point of view. Had I been master of my subject on setting out, the arrangement of the whole would have been rendered more concise: but had this been the case, I should never have been able to go through the painful deduction which forms the whole chain of my reasoning, and upon which, to many readers slow in forming combinations, the conviction it carries along with it in a great measure depends: to the few, again, of a more penetrating genius, to whom the slightest hint is sufficient to lay open every consequence before it be drawn, in allusion to Horace, I offer this apology, Clarus esse laboro, prolixus fio.

The path I have taken was new to me, after all I had read on the subject. I examined, by my own principles, what I had gathered from others; and adopted it as far as I found it tally with collateral circumstances. When, on the other hand, I found a disagreement, I was apprized immediately of some mistake; and this I found constantly owing to the narrowness of the combinations upon which it had been founded.

The great danger of running into error upon particular points relating to this subject, proceeds from our viewing them in a light too confined, and to our not attending to the influence of concomitant circumstances, which render general rules of little use. Men of parts and knowledge seldom fail to reason consequentially on every subject; but when inquiries are made concerning the complicated interests of society, the vivacity of an author’s genius is apt to prevent him from attending to the variety of circumstances which render uncertain every consequence, almost, which he can draw from his reasoning. To this I ascribe the habit of running into what the French call Systèmes. These are no more than a chain of contingent consequences, drawn from a few fundamental maxims, adopted, perhaps, rashly. Such systems are mere conceits; they mislead the understanding, and efface the path to truth. An induction is formed, from whence a conclusion, called a principle, is drawn and defined; but this is no sooner done, than the author extends its influence far beyond the limits of the ideas present to his understanding, when he made his definition. The best method, therefore, to detect a pretended system, is always to substitute the definition in place of the term.

The imperfection also of language engages us frequently in disputes merely verbal; and instead of being on our guard against the many unavoidable ambiguities attending the most careful speech, we place a great part of our learning when at school, and of our wit when we appear on the stage of the world, in the prostitution of language. The learned delight in vague, and the witty in equivocal terms. In general, we familiarize ourselves so much to words, and think so little, when we speak and write, that the signs of our ideas take the place of the images which they were intended to represent.

Every true proposition, when understood, must be assented to universally. This is the case always, when simple ideas are affirmed or denied of each other. Nobody ever doubted that sound is the object of hearing, or colour that of sight, or that black is not white. But whenever a dispute arises concerning a proposition, wherein complex ideas are compared, we may often rest assured, that the parties do not understand each other. Luxury, says one, is incompatible with the prosperity of a state. Luxury is the fountain of a nation's welfare and happiness, says another. There may, in reality, be no difference in the sentiments of these two persons. The first may consider luxury as
prejudicial to foreign trade, and as corrupting the morals of a
people. The other may consider luxury as the means of providing
employment for such as must live by their industry, and of
promoting an equable circulation of wealth and subsistence,
through all the classes of inhabitants. If each of them had
attended to the other's complex idea of luxury, with all its
consequences, they would have rendered their propositions less
general.

The difference, therefore, of opinion between men is
frequently more apparent than real. When we compare our own
ideas, we constantly see their relations with perspicuity; but
when we come to communicate these relations to other people, it
is often impossible to put them into words sufficiently
expressive of the precise combination of them we have made in our
own minds.

This being the case, I have avoided, as much as possible,
condemning such opinions as I have taken the liberty to review;
because I have examined such only as have been advanced by men of
genius and reputation; and since all matters of controversy
regard the comparison of our ideas, if the terms we use to
express them were sufficiently understood by both parties, most
political disputes would, I am persuaded, be soon at an end.

Here it may be objected, that we frequently adopt an opinion,
without being able to give a sufficient reason for it; and yet we
cannot persuade ourselves to give it up, though we find it
combated by the strongest arguments. To this I answer, that in
such cases we do not adhere to our own opinions, but to those of
others received upon trust. It is our regard for the authority,
and not for the opinion, which makes us tenacious: for were the
opinion truly our own, we could not fail of seeing, or at least
we should not long be at a loss in recollecting, the ground upon
which it is built. But when we assent implicitly to any political
doctrine, there is no room for reason: we then satisfy ourselves
with the persuasion that those whom we trust have sufficient
reasons for what they advance. While our assent therefore is
implicit, we are beyond conviction; not because we do not
perceive the force of the arguments brought against our opinion,
but because we are ignorant of the force of those which can be
brought to support it: and as no body will sell what belongs to
him, without being previously informed of its value, so no body
will give up an implicit opinion, without knowing all that can be
said for it. To this class of men I do not address myself in this
inquiry.

But I insensibly run into a metaphysical speculation, in
order to prove, that in political questions it is better for
people to judge from experience and reason, than from authority
to explain their terms, than to dispute about words; and to
extend the combinations of their own ideas, than to follow
conceits, however decorated with the name of systems. How far I
have avoided such defects, the reader will determine.

Every writer values himself upon his impartiality; because he
is not sensible of his fetters. The wandering and independent
life I have led may naturally have set me free, in some measure,
from strong attachments to popular opinions. This may be called
impartiality. But as no man can be deemed impartial, who leans to
any side whatever, I have been particularly on my guard against
the consequences of this sort of negative impartiality; because I
have found it sometimes carrying me too far from that to which a
national prejudice might have led me.

In discussing general points, the best method I found to
maintain a just balance in this respect, was to avert my eye from
the country in which I lived at the time; and to judge of absent things by the absent. Objects which are present, are apt to produce perceptions too strong to be impartially compared with those recalled by memory only.

When I have had occasion to dip into any question concerning the preference to be given to certain forms of government above others, and to touch upon points which have been the object of sharp disputes, I have given my opinion with freedom, when it seemed proper: but in stating the question, I have endeavoured to avoid all trite, and, as I may call them, technical terms of party; which in such disputes every side chuses to take in their own acceptation: and as there is no sentiment of concord or good-will in their hearts, instead of coming to explanations together, they are charmed to find an occasion to differ concerning general propositions, from those they hate for particular considerations.

I have sometimes entered so heartily into the spirit of the statesman, as to be apt to forget my station in the society where I live; and when as a private man I have read over the work of the politician, my natural partiality in favour of individuals has led me to condemn, as Machiavellian principles, every sentiment, approving the sacrifice of private concerns in favour of a general plan.

In order, therefore, to reconcile me to myself in this particular, and to prevent certain expressions here and there interspersed, from making the slightest impression upon a reader of delicate sentiments, I must observe, that nothing would have been so easy as to soften many passages, where the politician appears to have snatched the pen out of the hand of the private citizen: but as I write for such only who can follow a close reasoning, and attend to the general scope of the whole inquiry, I have, purposely, made no correction; but continued painting, in the strongest colours, every inconvenience which must affect certain individuals living under our free modern governments, whenever a wise statesman sets about correcting old abuses, proceeding from idleness, sloth, or fraud in the lower classes, arbitrary jurisdictions in the higher, and neglects in administrations with respect to the interests of both. The more any cure is painful and dangerous, the more ought men carefully to avoid the disease. This leads me to say a word concerning the connection between the theory of morals and that of politics.

I lay it down as a general maxim, that the characteristic of a good action consists in the conformity between the motive, and the duty of the agent. Were there but one man upon earth, his duty would contain no other precepts than those dictated by self-love. If he come to be a father, a husband, a friend, his self-love falls immediately under limitations: he must withhold from himself, and give to his children; he must know how to sacrifice some of his fancies, in order to gratify, now and then, those of his wife, or of his friend. If he come to be a judge, a magistrate; he must frequently forget that he is a friend, or a father: and if he rise to be a statesman, he must disregard many other attachments more comprehensive, such as family, place of birth, and even, in certain cases, his native country. His duty here becomes relative to the general good of that society of which he is the head: and as the death of a criminal cannot be imputed to the judge who condemns him, neither can a particular inconvenience resulting to an individual, in consequence of a step taken for a general reformation, be imputed to him who sits at the helm of government.

If it should be asked, of what utility a speculation such as
this can be to a statesman, to whom it is in a manner addressed from the beginning to the end: I answer, that although it seem addressed to a statesman, the real object of the inquiry is to influence the spirit of those whom he governs; and the variety of matter contained in it, may even suggest useful hints to himself. But his own genius and experience will enable him to carry such notions far beyond the reach of my abilities.

I have already said that I considered my work as no more than a canvass prepared for more able hands than mine to work upon. Now although the sketch it contains be not sufficiently correct, I have still made some progress, I think, in preparing the way for others to improve upon my plan, by contriving proper questions to be resolved by men of experience in the practical part of government.

I leave it therefore to masters in the science to correct and extend my ideas: and those who have not made the principles of policy their particular study, may have an opportunity of comparing the exposition I have given of them with the commonly received opinions concerning many questions of great importance to society. They will, for instance, be able to judge how far population can be increased usefully, by multiplying marriages, and by dividing lands: how far the swelling of capitals, cities and towns, tends to depopulate a country: how far the progress of luxury brings distress upon the poor industrious man: how far restrictions laid upon the corn trade, tend to promote an ample supply of subsistence in all our markets: how far the increase of public debts tends to involve us in a general bankruptcy: how far the abolition of paper currency would have the effect of reducing the price of all commodities: how far a tax tends to enhance their value: and how far the diminution of duties is an essential requisite for securing the liberty, and promoting the prosperity and happiness of a people.

Is it not of the greatest importance to examine, with candour, the operations by which all Europe has been engaged in a system of policy so generally declaimed against, and so contrary to that which we hear daily recommended as the best? To shew, from the plain principles of common sense, that our present situation is the unavoidable consequence of the spirit and manners of the present times; and that it is quite compatible with all the liberty, affluence, and prosperity, which any human society ever enjoyed in any age, or under any form of government? A people taught to expect from a statesman the execution of plans, big with impossibility and contradiction, will remain discontented under the government of the best of Kings.

Book I

Of Population and Agriculture

Introduction

OEconomy, in general, is the art of providing for all the wants of a family, with prudence and frugality.

If any thing necessary or useful be found wanting, if any thing provided be lost or misapplied, if any servant, any animal, be supernumerary or useless, if any one sick or infirm be neglected, we immediately perceive a want of oeconomy. The object of it, in a private family, is therefore to provide for the nourishment, the other wants, and the employment of every individual. In the first place, for the master, who is the head, and who directs the whole; next for the children, who interest
him above all other things; and last for the servants, who being useful to the head, and essential to the well-being of the family, have therefore a title to become an object of the master's care and concern.

The whole oeconomy must be directed by the head, who is both lord and steward of the family. It is however necessary, that these two offices be not confounded with one another. As lord, he establishes the laws of his oeconomy; as steward, he puts them in execution. As lord, he may restrain and give his commands to all within the house as he thinks proper; as steward, he must conduct with gentleness and address, and is bound by his own regulations. The better the oeconomist, the more uniformity is perceived in all his actions, and the less liberties are taken to depart from stated rules. He is not so much master, as that he may break through the laws of his oeconomy, although in every respect he may keep each individual within the house, in the most exact subordination to his commands. Oeconomy and government, even in a private family, present therefore two different ideas, and have also two different objects.

What oeconomy is in a family, political oeconomy is in a state: with these essential differences, however, that in a state there are no servants, all are children: that a family may be formed when and how a man pleases, and he may there establish what plan of oeconomy he thinks fit; but states are found formed, and the Oeconomy of these depends upon a thousand circumstances. The statesman (this is a general term to signify the legislature and supreme power, according to the form of government) is neither master to establish what oeconomy he pleases, or, in the exercise of his sublime authority, to overturn at will the established laws of it, let him be the most despotic monarch upon earth.(1*)

The great art therefore of political oeconomy is, first to adapt the different operations of it to the spirit, manners, habits, and customs of the people; and afterwards to model these circumstances so, as to be able to introduce a set of new and more useful institutions.

The principal object of this science is to secure a certain fund of subsistence for all the inhabitants, to obviate every circumstance which may render it precarious; to provide everything necessary for supplying the wants of the society, and to employ the inhabitants (supposing them to be free-men) in such a manner as naturally to create reciprocal relations and dependencies between them, so as to make their several interests lead them to supply one another with their reciprocal wants.

If one considers the variety which is found in different countries, in the distribution of property, subordination of classes, genius of people, proceeding from the variety of forms of government, laws, climate, and manners, one may conclude, that the political oeconomy in each must necessarily be different, and that principles, however universally true, may become quite ineffectual in practice, without a sufficient preparation of the spirit of a people.

It is the business of a statesman to judge of the expediency of different schemes of oeconomy, and by degrees to model the minds of his subjects so as to induce them, from the allurement of private interest, to concur in the execution of his plan.

The speculative person who, removed from the practice, extracts the principles of this science from observation and reflection, should divest himself, as far as possible, of every prejudice in favour of established opinions, however reasonable, when examined relatively to particular nations: he must do his
utmost to become a citizen of the world, comparing customs, examining minutely institutions which appear alike, when in different countries they are found to produce different effects; he should examine the cause of such differences with the utmost diligence and attention. It is from such inquiries that the true principles are discovered.

He who takes up the pen upon this subject, keeping in his eye the customs of his own or any other country, will fall more naturally into a description of one particular system of it, than into an examination of the principles of the science in general; he will applaud such institutions as he finds rightly administered at home; he will condemn those which are administered with abuse; but, without comparing different methods of executing the same plan in different countries, he will not easily distinguish the disadvantages which are essential to the institution, from those which proceed from the abuse. For this reason a land-tax excites he indignation of a Frenchman, an excise that of an Englishman. One who looks into the execution of both, in each country, and in every branch of their management, will discover the real effects of these impositions, and be able to distinguish what proceeds from abuse, from what is essential to the burden.

Nothing is more effectual towards preparing the spirit of a people to receive a good plan of oeconomy, than a proper representation of it. On the other hand, nothing is better calculated to keep the statesman, who is at the head of affairs, in awe.

When principles are well understood, the real consequences of burdensome institutions are clearly seen: when the purposes they are intended for are not obtained, the abuse of the statesman's administration appears palpable. People then will not so much cry out against the imposition, as against the misapplication. It will not be a land-tax of four shillings in the pound, nor an excise upon wines and tobacco, which will excite the murmurs of a nation; it will be the prodigal dissipation and misapplication of the amount of these taxes after they are laid on. But when principles are not known, all inquiry is at an end, the moment a nation can be engaged to submit to the burden. It is the same with regard to many other parts of this science: while people remain blind they are always mistrustful.

Having pointed out the object of my pursuit, I shall only add, that my intention is to attach myself principally to a clear deduction of principles, and a short application of them to familiar examples, in order to avoid abstraction as much as possible. I farther intend to confine myself to such parts of this extensive subject, as shall appear the most interesting in the general system of modern politics; of which I shall treat with that spirit of liberty, which reigns more and more every day, throughout all the polite and flourishing nations of Europe.

When I compare the elegant performances which have appeared in Great Britain and in France with my dry and abstracted manner of treating the same subject, in a plain language void of ornament, I own I am discouraged on many accounts. If I be obliged to set out by laying down, as fundamental principles, the most obvious truths, I dread the imputation of pedantry, and of pretending to turn common sense into science. If I follow these principles through a minute detail, I may appear trifling. I therefore hope the reader will believe me, when I tell him, that these defects have not escaped my discernment, but that my genius, the nature of the work, and the connection of the subject, have obliged me to write in an order and in a style,
where every thing has been sacrificed to perspicuity.

My principal aim shall be to discover truth, and to enable my reader to touch the very link of the chain where I may at any time go astray.

My business shall not be to seek for new thoughts, but to reason consequentially; and if any thing new shall be found, it will be in the conclusions.

Long steps in political reasoning lead to error: close reasoning is tedious, and to many appears trivial: this, however, must be my plan, and my consolation is, that the farther I advance, I shall become the more interesting.

Every supposition must be considered as strictly relative to the circumstances presupposed; and though, in order to prevent misapplication, and to avoid abstraction as much as possible, I frequently make use of examples for illustrating every principle; yet these, which are taken from matters of fact, must be supposed divested of every foreign circumstance inconsistent with the supposition.

I shall combat no particular opinion in such intricate matters; though sometimes I may pass them in review, in order to point out how I am led to differ from them.

I pretend to form no system, but, by tracing out a succession of principles, consistent with the nature of man and with one another, I shall endeavour to furnish some materials towards the forming of a good one.

Chap. I

Of the Government of Mankind

Man we find acting uniformly in all age, in all countries, and in all climates, from the principles of self-interest, expediency, duty, or passion. In this he is alike, in nothing else.

These motives of human actions produce such a variety of circumstances, that if we consider the several species of animals in the creation, we shall find the individuals of no class so unlike to one another, as man to man. No wonder then if people differ in opinion with regard to every thing almost which relates to our species.

As this noble animal is a sociable creature, both from necessity and inclination, we find also, in all ages, climates and countries, a certain modification of government and subordination established among them. Here again we are presented with as great a variety, as there are different societies; all however agreeing in this, that the end of a voluntary subordination to authority is with a view to promote the general good.

Constant and uninterrupted experience has proved to man, that virtue and justice, in those who govern, are sufficient to render the society happy, under any form of government. Virtue and justice, when applied to government, mean no more than a tender affection for the whole society, and an exact and impartial regard for the interest of every class.

All actions, and all things indeed, are good or bad by relation only. Nothing is so complex as relations when considered with regard to a society, and nothing is so difficult as to discover truth, when involved and blended with these relations.

We are not to conclude from this, that every operation of government must become problematical and uncertain as to its consequences: some are evidently good; others are notoriously
bad; those, the tendency of which is less evident, are always the least essential, and the more complex they appear to a discerning eye, the more trivial they are found to be in their immediate consequences.

A government must be continually in action, and one principal object of its attention must be, the consequences and effects of new institutions.

Experience alone will shew, what human prudence could not foresee: and mistakes must be corrected as often as expediency requires.

All governments have what they call their fundamental laws; but fundamental, that is, invariable laws, can never subsist among men, the most variable thing we know: the only fundamental law, salus populi, must ever be relative, like every other thing. But this is rather a maxim than a law.

It is however expedient, nay absolutely necessary, that in every state, certain laws be supposed fundamental and invariable: both to serve as a curb to the ambition of individuals, and to point out to the statesman the outlines, or sketch of that plan of government, which experience has proved to be the best adapted to the spirit of his people.

Such laws may even be considered as actually invariable, while a state subsists without convulsions or revolutions; because then the alterations are so gradual, that they become imperceptible to all, but the most discerning, who can compare the customs and manners of the same people in different periods of time and under different circumstances.

As we have taken for granted the fundamental maxim, that every operation of government should be calculated for the good of the people, so we may with equal certainty decide, that in order to make a people happy, they must be governed according to the spirit which prevails among them.

I am next to explain what I mean by the spirit of a people, and to show how far this spirit must be made to influence the government of every society.

Chap. II

Of the Spirit of a People

The spirit of a people is formed upon a set of received opinions relative to three objects; morals, government, and manners: these once generally adopted by any society, confirmed by long and constant habit, and never called in question, form the basis of all laws, regulate the form of every government, and determine what is commonly called the customs of a country.

To know a people, we must examine them under these general heads. We acquire the knowledge of their morals with ease, by consulting the tenets of their religion, and from what is taught among them by authority.

The second, or government, is more disguised, as it is constantly changing from circumstances, partly resulting from domestic and partly from foreign considerations. A thorough knowledge of their history, and conversation with their ministers of state, may give one, who has access to these helps, a very competent knowledge of this branch.

The last, or the knowledge of the manners of a people, is by far the most difficult to acquire, and yet is the most open to every person's observation. Certain circumstances with regard to manners are supposed by every one in the country to be so well known, so generally followed and observed, that it seldom occurs
to any body to inform a stranger concerning them. In one country nothing is so injurious as a stroke with a stick, or even a gesture which implies a design or a desire to strike. In another a stroke is not near so offensive as an opprobrious expression. An innocent liberty with the fair sex, which in one country passes without censure, is looked upon in another as the highest indignity. In general, the opinion of a people with regard to injuries is established by custom only, and nothing is more necessary in government, than an exact attention to every circumstance peculiar to the people to be governed.

The kingdom of Spain was lost for a violence committed upon chastity; the city of Genoa for a blow; the kingdoms of Naples and Sicily have ever been ready to revolt; because having been for many ages under the dominion of strangers, the people have never been governed according to the true spirit of their manners. Let us consult the revolutions of all countries, and we shall find, that the most trivial circumstances have had a greater influence on such events, than the more weighty reasons, which are always set forth as the real motives. I need not enlarge upon this subject, my intention is only to suggest an idea which any one may pursue, and which will be applied upon many occasions as we go along; for there is no treating any point which regards the political oeconomy of a nation, without accompanying the example with some supposition relative to the spirit of the people.

I have said, that the most difficult thing to learn concerning a people, is the spirit of their manners. Consequently, the most difficult thing for a stranger to adopt, is their manner. Men acquire the language, nay even lose the foreign accent, before they lose the peculiarity of their manner. The reason is plain. The inclinations must be changed, the taste for amusements must be new-modelled; established maims upon government, manners, nay even upon some moral actions, must undergo certain new modifications, before the stranger's conversation and behaviour can become consistent with the spirit of the people with whom he lives.

From these considerations, we may find the reason, why nothing is more heavy to bear than the government of conquerors, in spite of all their endeavours to render themselves agreeable to the conquered. Of this, experience has ever proved the truth, and princes are so much persuaded of it, that when a country is subdued in our days, or when it otherwise changes masters, there is seldom any question of altering, but by very slow degrees and length of time, the established laws and customs of the inhabitants. I might safely say, there is no form of government upon earth so excellent in itself, as, necessarily, to make the people happy under it. Freedom itself, imposed upon a people groaning under the greatest slavery, will not make them happy, unless it is made to undergo certain modifications, relative to their established habits.

Having explained what I mean by the spirit of a people, I come next to consider, how far this spirit must influence government.

If governments be taken in general, we shall find them analogous to the spirit of the people. But the point under consideration is, how a statesman is to proceed, when expediency and refinement require a change of administration, or when it becomes necessary from a change of circumstances.

The great alteration in the affairs of Europe within these three centuries, by the discovery of America and the Indies, the springing up of industry and learning, the introduction of trade
and the luxurious arts, the establishment of public credit, and a general system of taxation, have entirely altered the plan of government every where.

From feudal and military, it is become free and commercial. I oppose freedom in government to the feudal system, to mark only that there is not found now that chain of subordination among the subjects, which made the essential part of the feudal form. The head there had little power, and the lower classes of the people little liberty. Now every industrious man, who lives with oeconomy, is free and independent under most forms of government. Formerly, the power of the barons swallowed up the independency of all inferior classes. I oppose commercial to military; because the military governments now are made to subsist from the consequences and effects of commerce only; that is, from the revenue of the state, proceeding from taxes. Formerly, every thing was brought about by numbers; now, numbers of men cannot be kept together without money.

This is sufficient to point out the nature of the revolution in the political state, and of consequence in the manners of Europe.

The spirit of a people changes no doubt of itself, but by slow degrees. The same generation commonly adheres to the same principles, and retains the same spirit. In every country we find two generations upon the stage at a time; that is to say, we may distribute into two classes the spirit which prevails; the one amongst men between twenty and thirty, when opinions are forming; the other of those who are past fifty, when opinions and habits are formed and confirmed. A person of judgment and observation may foresee many things relative to government, from an exact attention to the rise and progress of new customs and opinions, provided he preserve his mind free from all attachments and prejudices, in favour of those which he himself has adopted, and in that delicacy of sensation necessary to perceive the influence of a change of circumstances. This is the genius proper to form a great minister.

In every new step the spirit of the people should be first examined; and if this be not found ripe for the execution of the plan, it ought to be put off, kept entirely secret, and every method used to prepare the people to relish the innovation. The project of introducing popery into England was blown before it was put in practice, and so miscarried. Queen Elizabeth kept her own secret, and succeeded in a similar attempt. The scheme of a general excise was pushed with too much vivacity, was made a matter of party, was ill-timed, and the people nowise prepared for it; hence it will be the more difficult to bring about at another time, without the greatest precautions.

In turning and working upon the spirit of a people, nothing is impossible to an able statesman. When a people can be engaged to murder their wives and children, and to burn themselves, rather than submit to a foreign enemy, when they can be brought to give their most precious effects, their ornaments of gold and silver, for the support of a common cause; when women are brought to give their hair to make ropes, and the most decrepit old men to mount the walls of a town for its defence; I think I may say, that by properly conducting and managing the spirit of a people, nothing is impossible to be accomplished. But when I say, nothing is impossible, I must be understood to mean, that nothing essentially necessary for the good of the people is impossible; and this is all that is required in government.

That it requires a particular talent in a statesman to dispose the minds of a people to approve even of the scheme which
is the most conducive to their interest and prosperity, appears from this, that we see examples of wise, rich, and powerful nations languishing in inactivity, at a time when every individual is animated with a quite contrary spirit; becoming a prey to their enemies, like the city of Jerusalem, while they are taken up with their domestic animosities, merely because the remedies proposed against these evils contradict the spirit of the times.

The great art of governing is to divest oneself of prejudices and attachments to particular opinions, particular classes, and above all to particular persons; to consult the spirit of the people, to give way to it in appearance, and in so doing to give it a turn capable of inspiring those sentiments which may induce them to relish the change, which an alteration of circumstances has rendered necessary.

Can any change be greater among free men, than from a state of absolute liberty and independence to become subject to constraint in the most trivial actions? This change has however taken place over all Europe within these three hundred years, and yet we think ourselves more free than ever our fathers were. Formerly a gentleman who enjoyed a bit of land, knew not what it was to have any demand made upon him, but in virtue of obligations by himself contracted. He disposed of the fruits of the earth, and of the labour of his servants or vassals, as he thought fit. Every thing was bought, sold, transferred, transported, modified, and composed, for private consumption, or for public use, without ever the state's being once found interested in what was doing. This, I say, was formerly the general situation of Europe, among free nations under a regular administration; and the only impositions commonly known to affect landed men, were made in consequence of a contract of subordination, feudal or other, which had certain limitations; and the impositions were appropriated for certain purposes.

Daily experience shews, that nothing is more against the inclinations of a people than the imposition of taxes; and the less they are accustomed to them, the more difficult it is to get them established.

The great abuse of governors in the application of taxes contributes not a little to entertain and augment this repugnancy in the governed: but besides abuse, there is often too little management used to prepare the spirits of the people for such innovations; for we see them upon many occasions submitting with cheerfulness to very heavy impositions, provided they he well-timed, and consistent with their manners and disposition. A French gentleman, who cannot bear the thought of being put upon a level with a peasant in paying a land-tax, pays contentedly, in time of war, a general tax upon all his effects, under a different name. To pay for your head is terrible in one country; to pay for light appears as terrible in another.

It often happens, that statesmen take the hint of new impositions from the example of other nations, and not from a nice examination of their own domestic circumstances. But when these are rightly attended to, it becomes easy to discover the means of executing the same plan, in a way quite adapted to the spirit, temper, and circumstances of the people. When strangers are employed as statesmen, the disorder is still greater, unless there be extraordinary penetration, temper, and, above all, flexibility and discretion.

Statesmen have sometimes recourse to artifice instead of reason, because their intentions often are not upright. This destroys all confidence between them and the people; and
confidence is necessary when you are in a manner obliged to ask a favour, or when what you demand is not indisputably your right. A people thus tricked into an imposition, though expedient for their prosperity, will oppose violently, at another time, a like measure, even when essential to their preservation.

At other times, we see statesmen presenting the allurement of present ease, precisely at the time when people's minds are best disposed to receive a burden. I mean when war threatens, and when the mind is heated with a resentment of injuries. Is it not wonderful, at such a time as this, to increase taxes in proportion only to the interest of money wanted; does not this imply a shortsightedness, or at least an indifference as to what is to come? Is it not more natural, that a people should consent to come under burdens to gratify revenge, than submit to repay a large debt when their minds are restored to a state of tranquility.

From the examples I have given, I hope what I mean by the spirit of a people is sufficiently understood, and I think I have abundantly shewn the necessity of its being properly disposed, in order to establish a right plan of oeconomy. This is so true, that many examples may be found, of a people's rejecting the most beneficial institutions, and even the greatest favours, merely because some circumstance had shocked their established customs. No wonder then, if we see them refuse to come under limitations, restraints, and burdens, when the utmost they can be flattered with from them, is a distant prospect of national good.

I have found it necessary to premise these general reflections, in order to obviate many objections which might naturally enough occur in the perusal of this inquiry. I shall have occasion to make a number of suppositions, and to draw consequences from them, which are abundantly natural, provided a proper spirit in the people be presupposed, but which would be far from being natural without this supposition. I suppose, for example, that a poor man, loaded with many children, would be glad to have the state maintain them; that another, who has waste lands, would be obliged to one who would gratuitously build him a farm-house upon it. yet in both suppositions I may prove mistaken; for fathers there are, who would rather see their children dead than out of their hands; and proprietors are to be found, who, for the sake of hunting, would lay the finest country in Europe into a waste.

In order to communicate an adequate idea of what I understand by political oeconomy, I have explained the term, by pointing out the object of the art; which is, to provide food, other necessaries, and employment to every one of the society.

This is a very simple and a very general method of defining a most complicated operation.

To provide a proper employment for all the members of a society, is the same as to model and conduct every branch of their concerns.

Upon this idea may be formed, I think, the most extensive basis for an inquiry into the principles of political oeconomy.

The next thing to be done, is to fall upon a distinct method of analysing so extensive a subject, by contriving a train of ideas, which may be directed towards every part of the plan, and which, at the same time, may be made to arise methodically from one another.

For this purpose I have taken a hint from what the late revolutions in the politics of Europe have pointed out to be the regular progress of mankind, from great simplicity to complicated refinement.
This first book shall then set out with taking up society in the cradle, as I may say. I shall here examine the principles which influence their multiplication, the method of providing for their subsistence, the origin of their labour, the effects of their liberty and slavery, the distribution of them into classes, with some other topics which relate to mankind in general.

Here we shall find the principles of industry influencing the multiplication of mankind, and the cultivation of the soil. This I have thrown in on purpose to prepare my reader for the subject of the second book; where he will find the same principle (under the wings of liberty) providing an easy subsistence for a numerous populace, by the means of trade, which sends the labour of an industrious people over the whole world.

From the experience of what has happened these last two hundred years, we find to what a pitch the trade and industry of Europe has increased alienations, and the circulation of money. I shall therefore closely adhere to these, as the most immediate consequences of the preceding improvement; and, by analysing them, I shall form my third and fourth books, in which I intend to treat of money and credit.

We see also how credit has engaged nations to avail themselves of it in their wars, and how, by the use of it, they have been led to contract debts; which they never can satisfy and pay, without imposing taxes. The doctrine, then, of debts and taxes will very naturally follow that of credit in this great chain of political consequences.

By this kind of historical clue, I shall conduct myself through the great avenues of this extensive labyrinth; and in my review of every particular district, I shall step from consequence to consequence, until I have penetrated into the inmost recesses of my own understanding.

When a subject is broken off, I shall render my transitions as gradual as I can, by still preserving some chain of connexion; and although I cannot flatter myself (in such infinite variety of choice, as to order and distribution) to hit at all times on that method, which may appear to every reader the most natural and the most correct, yet I shall spare no pains in casting the materials into different forms, so as to make the best distribution of them in my power.

Chap. III

Upon what Principles, and from what natural Causes do Mankind multiply? And what are the Effects of Procreation in Countries where Numbers are found to increase?

The multiplication of mankind has been treated of in different ways; some have made out tables to show the progression of multiplication, others have treated the question historically. The state of numbers in different ages of the world, or in different countries at different times, has been made the object of inquiry; and the most exact scrutiny has been made into ancient authors, as the means of investigating the truth of this matter. All passages relative to the subject have been laid together, and accompanied with glosses and interpretations the most plausible, in order to determine the main question. The elaborate performances of Mr Hume, and Dr Wallace, who have adopted opposite opinions in regard to the populousness of the ancient world, have left nothing new to be said upon this subject; at least the application they appear to have given in examining the ancients, is a great discouragement to any one who
might otherwise still flatter himself to find out circumstances in them, proper to cast a new light upon the question.

My intention in this chapter is not to decide, nor even to give my opinion upon that matter, far less to combat the arguments advanced on either side. I am to consider the question under a different point of view; not to inquire what numbers of people were found upon the earth at a certain time, but to examine the natural and rational causes of multiplication. If we can discover these, we may perhaps be led to judge how far they might have operated in different ages and in different countries.

The fundamental principle of the multiplication of all animals, and consequently of man, is generation; the next is food: generation gives existence, food preserves it. Did the earth produce of itself the proper nourishment for man with unlimited abundance, we should find no occasion to labour in order to procure it. Now in all countries found inhabited, as in those which have been found desolate, if the state of animals be inquired into, the number of them will be found in proportion to the quantity of food produced by the earth, regularly throughout the year, for their subsistence. I say, regularly throughout the year, because we perceive, in those animals which produce in great abundance, such as all the feathered sort, that vast multitudes are destroyed in winter; they are brought forth with the fruits of the earth, and fall in proportion to their decay. This principle is so natural, that I think it can hardly be controverted.

As to man, the earth does not spontaneously produce nourishment for him in any considerable degree. I allow that as some species of animals support life by devouring others, so may man; but it must be observed, that the species feeding must always be much inferior in number to the species fed upon. This is evident in reason and in fact.

Were the earth therefore uncultivated, the numbers of mankind would not exceed the proportion of the spontaneous fruits which she offers for their immediate use, or for that of the animals which might be the proper nourishment of man.

There is therefore a certain number of mankind which the earth would be able to maintain without any labour: allow me to call this quantity (A). Does it not, from this exposition of the matter, appear plain, that without labour (A) never can increase any more than animals, which do not work for themselves, can increase beyond the proportion of food provided for them by nature? Let it be however observed, that I do not pretend to limit (A) to a determinate number. The seasons will no doubt influence the numbers of mankind, as we see they influence the plenty of other animals; but I say (A) will never increase beyond the fixed proportion above mentioned.

Having resolved one question with regard to multiplication, and shewn that numbers must become greater or smaller according to the productions of nature, I come to the second thing proposed to be treated of in the chapter; to wit, what will become of the generative faculty after it has produced the full proportion of (A), and what effects will afterwards follow.

We see how beneficent, I might have said prodigal, nature is in bestowing life by generation. Several kinds of animals, especially insects, multiply by thousands, and yet the species does not appear annually to increase. Nobody can pretend that particular individuals of any species have a privilege to live, and that others die from a difference in their nature. It is therefore reasonable to conclude, that what destroys such vast quantities of those produced, must be, among other causes, the
want of food. Let us apply this to man. Those who are supposed to be fed with the spontaneous fruits of the earth, cannot, from what has been said, multiply beyond that proportion; at the same time the generative faculty will work its natural effects in augmenting numbers. The consequence will be, that certain individuals must become worse fed, consequently weaker. consequently, if, in that weakly state, nature should withhold a part of her usual plenty, the whole multitude will be affected by it; a disease may take place, and sweep off a far greater number than that proportioned to the deficiency of the season. What results from this? That those who have escaped, finding food more plentiful, become vigorous and strong. generation gives life to additional numbers, food preserves it, until they rise up to the former standard.

Thus the generative faculty resembles a spring loaded with a weight, which always exerts itself in proportion to the diminution of resistance: when food has remained some time without augmentation or diminution, generation will carry numbers as high as possible; if then food come to be diminished, the spring is overpowered; the force of it becomes less than nothing. Inhabitants will diminish, at least, in proportion to the overcharge. If, upon the other hand, food be increased, the spring which stood at 0, will begin to exert itself in proportion as the resistance diminishes; people will begin to be better fed; they will multiply, and, in proportion as they increase in numbers, the food will become scarce again.

I must here subjoin a remark very analogous to this subject. That the generative faculty in man (which we have compared to a spring), and the care and love we have for our children, first prompt us to multiply, and then engage us to divide what we have with our little ones. Thus from dividing and subdividing it happens, that in every country where food is limited to a certain quantity, the inhabitants must be subsisted in a regular progression, descending down from plenty and ample subsistence, to the last periods of want, and even sometimes starving for hunger.

Although the examples of this last extremity are not common in some countries, yet I believe they are more so than is generally imagined; and the other stages of want are productive of many diseases, and of a decay which extinguishes the faculty of generation, or which weakens it, so as to produce children less vigorous and less healthy. I appeal to experience, if this reasoning be not just.

Put two or three pairs of rabbits into a field proper for them, the multiplication will be rapid; and in a few years the warren will be stocked: you may take yearly from it a hundred pairs, I shall suppose, and keep your warren in good order: give over taking any for some years, you will perhaps find your original stock rather diminished than increased, for the reasons above mentioned. Africa yearly furnishes many thousands for the cultivation of America; in this she resembles the warren. I have little doubt but that if all her sons were returned to her at once, by far the greater part would die of hunger.

Chap. IV

Continuation of the same Subject, with regard to the natural and immediate Effects of Agriculture, as to Population

I now suppose man to add his labour and industry to the natural activity of the soil: so far, as by this he produces an
additional quantity of food, so far he lays a foundation for the maintenance of an additional number. This number I shall call (B). From this I conclude, that as (A) is supposed to be in a constant proportion to the spontaneous fruits, so (B) must be in proportion to agriculture (by this term I understand at present every method of augmenting food by labour), consequently the number maintained by the labour of mankind must be to the whole number of mankind as (B) is to (A + B), or as (B) is to (A) and (B) jointly.

By this operation we find mankind immediately divided into two classes; those who, without working, live upon the spontaneous fruits of the earth; that is, upon milk, cattle, hunting, &c. The other part, those who are obliged to labour the soil. It is proper next to inquire what should naturally oblige a man to labour; and what are the natural consequences of it as to multiplication.

We have already said, that the principle of generation is inherent in man, and prompts him to multiply. Another principle, as naturally inherent in the mind, as the first is in the body, is self-love, or a desire of ease and happiness, which prompts those who find in themselves any superiority, whether personal or political, to make use of every natural advantage. Consequently, such will multiply proportionably: because by appropriating to themselves the fruits of the earth, they have the means of subsisting their offspring. The others, I think, will very naturally become their servants; as this method is, of all others, the most easy to procure subsistence. This is so analogous to the nature of man, that we see everywhere, even among children, that the smallest superiority in any one over the rest, constantly draws along with it a tribute of service in one way or other. Those who become servants for the sake of food, will soon become slaves: for slavery is but the abuse of service, established by a civil institution; and men who find no possibility of subsisting otherwise, will be obliged to serve upon the conditions prescribed to them.

This seems a consequence not unnatural in the infancy of the world: yet I do not pretend to affirm that this was the origin of slavery. Servants, however, have always been; and the abuse of service is what we understand by slavery. The subordination of children to their parents, and of servants to their masters, seems to be the most rational origin of society and government. The first of these is natural, and follows as the unavoidable consequence of an entire dependence: the second is political, and may very naturally take place as to those who cannot otherwise procure subsistence. This last species of subordination may, I think, have taken place, the moment man became obliged to labour for subsistence, but no sooner.

The wants of man are not confined to food, merely. When food is to be produced from the rude surface of the earth, a great part of his time must be taken up with this object, even supposing him to be provided with every utensil proper for the exercise of his industry: he must therefore be in a worse condition to provide for his other wants: consequently, he may be willing to serve any one who will do it for him. Whereas, on the other hand, if we suppose all mankind idle and fed, living upon the spontaneous fruits of the earth, the plan of universal liberty becomes quite natural: because under such circumstances they find no inducement to come under a voluntary subordination.

Let us now borrow the idea of a primitive society, of a government, of a king, from the most ancient history we have, the better to point out the effects of agriculture and
multiplication. The society is the whole taken together; it is Jacob, his sons, their wives, their children, and all the servants. The government regards the institutions prescribed by Jacob, to every one of the family, concerning their respective subordination and duty. Multiplication will here go forward, not in proportion to the generative faculty, but according to the employment of the persons already generated. If Jacob continue pasturing his herds, he must extend the limits of his right of pasturage; he must multiply his stock of cattle, in proportion as the mouths of his family augment. He is charged with all this detail: for he is master, and director, and statesman, and general provider. His servants will work as they are ordered; but if he has not had the proper foresight, to break up lands so soon as his family comes nearly up to that proportion which his flocks can easily feed; if in this case, a dry season should burn up the grass in Palestine, he will be obliged to send some of his stock of cattle, by some of his family, to market, there to be sold; and with the price he must buy corn. For in this early age, there was money, there were manufactures of sackcloth, of common raiment, and of party-coloured garments; there was a trade in corn, in spicery, balm, and myrrh. Jacob and his family were shepherds, but they lived not entirely on flesh; they eat bread: consequently there was tillage in those days, though they exercised none. The famine however was ready to destroy them, and probably would have done it, but for the providential circumstance of Joseph's being governor of Egypt. He relieved their distress, he gave to his family the best country in the whole kingdom for pasture; and they had a gratuitous supply of bread.

No doubt, so long as these favourable circumstances subsisted, multiplication would go on apace. What supernatural assistance God was pleased to grant for the increase of his chosen people, does not concern my inquiry.

I have mentioned transiently this example of the patriarch, to point out only how ancient the use of money, the invention of trade and manufactures appear to have been. Without such previous establishments, I consider mankind as savages, living on the spontaneous fruits of the earth, as in the first supposition; and confined, as to numbers, to the actual extent of these productions.

From what has been said, we may conclude, that the numbers of mankind must depend upon the quantity of food produced by the earth for their nourishment; from which, as a corollary, may be drawn.

That mankind have been, as to numbers, and must ever be, in proportion to the food produced; and that the food produced will be in the compound proportion of the fertility of the climate, and the industry of the inhabitants.

From this last proposition it appears plain, that there can be no general rule for determining the number of inhabitants necessary for agriculture, not even in the same country. The fertility of the soil when laboured, the ease of labouring it, the quantity of good spontaneous fruits, the plenty of fish in the rivers and sea, the abundance of wild birds and beasts, have in all ages, and ever must influence greatly the nourishment, and, consequently, regulate the multiplication of man, and determine his employment.

To make an establishment in a country not before inhabited, to root out woods, destroy wild and venomous animals, drain marshy grounds, give a free course to water, and to lay down the surface into corn fields, must surely require more hands than to
cultivate the same after it is improved. For the truth of this, I appeal to our American brethren.

We may therefore conclude, that the most essential requisite for population, is that of agriculture, or the providing of subsistence. Upon this all the rest depends: while subsistence is upon a precarious footing, no statesman can turn his attention to any thing else.

The great importance of this object has engaged some to imagine, that the luxurious arts, in our days, are prejudicial both to agriculture and multiplication. It is sometimes of ill consequence to fix one's attention too much upon any one object, however important. Nobody can dispute that agriculture is the foundation of multiplication, and the most essential requisite for the prosperity of a state. But it does not follow from this, that every body almost in the state should be employed in it; that would be inverting the order of things, and turning the master into the servant. The duty and business of man is not to feed; he is fed, in order to do his duty, and to become useful in his profession; whether agriculture, art, or science.

It is not sufficient for my purpose to know, that the introduction of agriculture, by multiplying the quantity of the earth's productions, does evidently tend to increase the numbers of mankind. I must examine the political causes which must concur, in order to operate this effect.

For this purpose, my next inquiry shall be directed towards discovering the true principles which influence the employment of man, with respect to agriculture. I shall spare no pains in examining this point to the bottom, even though it should lead me to anticipate some branches of my subject.

I shall endeavour to lay down principles consistent with the nature of man, with agriculture, and with multiplication, in order, by their means, to discover both the use and abuse of the two last. When these parts are well understood, the rest will go on more smoothly, and I shall find the less occasion to interrupt my subject, in order to explain the topics upon which the whole depends.

Chap. V

In what Manner, and according to what Principles, and political Causes, does Agriculture augment Population?

I have already shewn, how the spontaneous fruits of the earth provide a fund of nourishment for a determinate number of men, and have slightly touched upon the consequences of adding labour to the natural activity of the soil.

Let me now carry this inquiry a little farther. Let me suppose a country fertile in spontaneous productions, capable of improvements of every kind, inhabited by a people living under a free government, and in the most refined simplicity, without trade, without the luxurious arts, and without ambition. Let me here suppose a statesman, who shall inspire a taste for agriculture and for labour into those who formerly consumed the spontaneous fruits of the earth in ease and idleness. What will become of this augmentation of food produced by this additional labour?

The sudden increase of food, such as that here supposed, will immediately diffuse vigour into all; and if the additional quantity be not very great, no superfluity will be found. No sooner will the inhabitants be fully nourished, but they will
begin to multiply anew: then they will come to divide with their children, and food will become scarce again.

Thus much is necessary for the illustration of one principle; but the effects, which we have been pointing out, will not be produced barely by engaging those who lived by hunting (I suppose) to quit that trade, and turn farmers. The statesman must also find out a method to make the produce of this new branch of industry circulate downwards, so as to relieve the wants of the most necessitous: Otherwise, the plenty produced, remaining in the hands of those who produced it, will become to them an absolute superfluity; which, had they any trade with a neighbouring state, they would sell, or exchange, and leave their fellow-citizens to starve. And as we suppose no trade at all, this superfluity will perish like their cherries, in a year of plenty; and consequently the farmers will immediately give over working.

If, to prevent this inconvenience, the statesman shall force certain classes to labour the soil, and, with discretion, distribute the produce of it to all that have occasion for subsistence, taking in return their services for the public benefit; this will prove an infallible way of multiplying inhabitants, of making them laborious, and of preserving a simplicity of manners; but it is also the picture of ancient slavery, and is therefore excluded from the supposition.

If he acts consistently with that spirit of liberty, which we have supposed to animate his subjects, he has no method left, but to contrive different employments for the hands of the necessitous, that, by their labour, they may produce an equivalent which may be acceptable to the farmers, in lieu of this superfluity; for these last certainly will not raise it, if they cannot dispose of it; nor will they dispose of it, but for a proper equivalent. This is the only method (in a free state) of procuring additional food, and of distributing it through the society, as the price of those hours which before were spent in idleness: and, as this will prove a more certain and more extensive fund of subsistence, than the precarious productions of spontaneous fruits, which cannot be increased at discretion, and in proportion to demand, it will greatly increase numbers; but, on the other hand, it must evidently destroy that simplicity of manners which naturally reigns among nations who do not labour.

A people, therefore, who have an industrious turn, will multiply in proportion to the superfluity produced by their farmers; because the labour of the necessitous will prove an equivalent for it.

Now this additional number of inhabitants, being raised and fed with the superfluity actually produced by the farmers, can never be supposed necessary for providing this quantity, which (though relatively to the farmers it be called a superfluity) is merely a sufficiency relatively to the whole society. and, therefore, if it be found necessary to employ the new inhabitants also in farming, it must be with a view only to a still greater multiplication.

Farther, we may lay it down as a principle, that a farmer will not labour to produce a superfluity of grain relatively to his own consumption, unless he finds some want which may be supplied by means of that superfluity; neither will other industrious persons work to supply the wants of the farmer for any other reason than to procure subsistence, which they cannot otherwise so easily obtain. These are the reciprocal wants which the statesman must create, in order to bind the society together. Here, then, is one principle: Agriculture among a free people
will augment population, in proportion only as the necessitous are put in a situation to purchase subsistence with their labour.

If, in any country which actually produces nourishment for its inhabitants, according to the progression above-mentioned, a plan is set on foot for the extension of agriculture; the augmentation must be made to bear a due proportion to the progress of industry and wants of the people, or else an outlet must be provided for disposing of the superfluity. And if, at setting out, a foreign consumption cannot be procured for the produce of husbandry, the greatest caution must be had to keep the improvement of the soil within proper bounds: for, without this, the plan intended for an improvement will, by over-doing, turn out to the detriment of agriculture. This will be the case, if the fruits of the earth be made to increase faster than the numbers and the industry of those who are to consume them. For if the whole be not consumed, the regorging plenty will discourage the industry of the farmer.

But if, together with an encouragement to agriculture, a proper outlet be found for the superfluity, until the numbers and industry of the people, by increasing, shall augment the home-consumption, which again by degrees will diminish the quantity of exportation, then the spring will easily overcome the resistance; it will dilate; that is, numbers will continue to increase.

From this may be derived another principle: That agriculture, when encouraged for the sake of multiplying inhabitants, must keep pace with the progress of industry; or else an outlet must be provided for all superfluity.

In the foregoing example, I have supposed no exportation, the more to simplify the supposition: I was, therefore, obliged to throw in a circumstance, in order to supply the want of it; to wit, an augmentation of inland demand from the suspension of hunting; and I have supposed those who formerly supported themselves by this, to consume the superfluous food of the farmers for the price of their labour. This may do well enough as a supposition, and has been made use of merely to explain principles. But the manners of a people are not so easily changed; and therefore I have a little anticipated the supposition of trade, to shew only how it must concur with industry, in the advancement of agriculture and multiplication.

Let me next consider the consequences of an augmentation of agriculture in a country where the inhabitants are lazy; or where they live in such simplicity of manners, as to have few wants which labour and industry can supply. In this case, I say, the scheme of agriculture will not succeed; and, if set on foot, a part of the grounds will soon become again uncultivated.

The laziest part of the farmers, disgusted with a labour which produces a plenty superfluous to themselves, which they cannot dispose of for any equivalent, will give over working, and return to their ancient simplicity. The more laborious will not furnish food to the necessitous for nothing; such therefore who cannot otherwise subsist, will naturally serve the industrious, and thereby sell their service for food. Thus by the diminution of labour, a part of the country, proportional to the quantity of food which the farmers formerly found superfluous, will again become uncultivated.

Here then will be found a country, the population of which must stop for want of food; and which, by the supposition, is abundantly able to produce more. Experience every where shews the possible existence of such a case, since no country in Europe is cultivated to the utmost: and that there are many still, where
cultivation, and consequently multiplication, is at a stop. These nations I consider as in a moral incapacity of multiplying: the incapacity would be physical, if there was an actual impossibility of their procuring an augmentation of food by any means whatsoever.

These principles seem to be confirmed by experience; whether we compare them with the manner of living among the free American savages, or among the free, industrious, and laborious Europeans. We find the productions of all countries, generally speaking, in proportion to the number of their inhabitants; and, on the other hand, the inhabitants are most commonly in proportion to the food.

I beg that this may not be looked upon as a quibble, or what is called a vicious circle. I have qualified the general proposition by subjoining that it is found true most commonly; and from what is to follow, we shall better discover both the truth and meaning of what is here advanced. While certain causes operate, food will augment, and mankind will increase in proportion; when these causes cease, procreation will not augment numbers; then the general proposition will take place; numbers and food will remain the same, and balance one another. This I imagine to be so in fact; and I hope to shew that it is rational also. Let me now put an end to this chapter, by drawing some conclusions from what has been laid down, in order to enlarge our ideas, and to enable us to extend our plan.

First, One consequence of a fruitful soil, possessed by a free people, given to agriculture, and inclined to industry, will be the production of a superfluous quantity of food, over and above what is necessary to feed the farmers. Inhabitants will multiply; and, according to their increase, a certain number of the whole, proportional to such superfluity of nourishment produced, will apply themselves to industry and to the supplying of other wants.

Secondly, From this operation produced by industry, we find the people distributed into two classes. The first is that of the farmers who produce the subsistence, and who are necessarily employed in this branch of business; the other I shall call free hands; because their occupation being to procure themselves subsistence out of the superfluity of the farmers, and by a labour adapted to the wants of the society, may vary according to these wants, and these again according to the spirit of the times.

Thirdly, If, in the country we are treating of, both money and the luxurious arts be supposed to be unknown, then the superfluity of the farmers will be in proportion to the number of those whose labour will be found sufficient to provide for all the other necessities of the inhabitants; and, so soon as this is accomplished, the consumption and produce becoming equally balanced, the inhabitants will increase no more, or at least very precariously, unless their wants be multiplied.

Chap. VI

How the Wants of Mankind promote their Multiplication

If the country we were treating of in the former chapter be supposed of a considerable extent and fruitfulness, and if the inhabitants have turn for industry, in a short time luxury, and the use of money (or of something participating of the nature of money), will infallibly be introduced.
By LUXURY, I understand the consumption of any thing produced by the labour or ingenuity of man, which flatters our senses or taste of living, and which is neither necessary for our being well fed, well clothed, well defended against the injuries of the weather, or for securing us against every thing which can hurt us.(4*)

By MONEY, I understand any commodity, which purely in itself is of no material use to man for the purposes above-mentioned, but which acquires such an estimation from his opinion of it, as to become the universal measure of what is called value, and an adequate equivalent for any thing alienable.(5*)

Here a new scene opens. This money must be found in the hands of some of the inhabitants; naturally, of such as have had the wit to invent it, and the address to make their countrymen fond of it, by representing it as an equivalent value for food and necessaries; that is to say, the means of procuring, without work or toil, not only the labour of others, but food itself.

Here then is produced a new object of want. Every person becomes fond of having money; but how to get it is the question. The proprietors will not give it for nothing, and, by our former supposition, every one within the society was understood to be abundantly supplied with food and necessaries; the farmers, from their labouring the ground; the free hands, by the return of their own ingenuity, in furnishing necessaries. The proprietors therefore of this money have all their wants supplied, and still are possessors of this new kind of riches, which we now suppose to be coveted by all.

The natural consequence here will be, that those who have the money will cease to labour, and yet will consume; and they will not consume for nothing, for they will pay with money.

Here then is a number of inhabitants, who live and consume the produce of the earth without labouring; food will soon become scarce; demand for it will rise, and that will be paid with money, this is the best equivalent of all; many will run to the plough; the superfluity of the farmers will augment; the rich will call for superfluities; the free hands will supply them, and demand food in their turn. These will, the rich, who not be found a burden on the husbandman, as formerly hired of them their labour or service, must pay them with money, and this money in their hands will serve as an equivalent for the superfluity of nourishment produced by additional agriculture.

When once this imaginary wealth (money) becomes well introduced into a country, luxury will very naturally follow; and when money becomes the object of our wants, mankind become industrious, in turning their labour towards every object which may engage the rich to part with it; and thus the inhabitants of any country may increase in numbers, until the ground refuses farther nourishment. The consequences of this will make the subject of another chapter.

Before we proceed, something must be said, in order a little to restrain these general assertions.

We have supposed a very rapid progress of industry, and a very sudden augmentation of inhabitants, from the introduction of money. But it must be observed, that many circumstances have concurred with the money to produce this effect.

We have supposed a country capable of improvement, a laborious people, a taste for refinement and luxury in the rich, an ambition to become so, and an application to labour and ingenuity in the lower classes of men. According to the greater or less degree of force, or concurrence of these and like circumstances, will the country in question become more or less
cultivated, and consequently peopled.

If the soil be vastly rich, situated in a warm climate, and naturally watered, the productions of the earth will be almost spontaneous: this will make the inhabitants lazy. Laziness is the greatest of all obstacles to labour and industry. Manufactures will never flourish here. The rich, with all their money, will not become luxurious with delicacy and refinement; for I do not mean by luxury the gratification of the animal appetites, nor the abuse of riches, but an elegance of taste and in living, which has for its object the labour and ingenuity of man; and as the ingenuity of workmen begets a taste in the rich, so the allurement of riches kindles an ambition, and encourages an application to works of ingenuity, in the poor.

Riches therefore will here be adored as a god, but not made subservient to the uses of man; and it is by the means of swift circulation only (as shall be observed in its proper place) that they become productive of the effects mentioned above.(6*)

When money does not circulate, it is the same thing as if it did not exist; and as the treasures found in countries where the inhabitants are lazy do not circulate, they are rather ornamental than useful.

It is not therefore in the most fruitful countries of the world, nor in those which are the best calculated for nourishing great multitudes, that we find the most inhabitants. It is in climates less favoured by nature, and where the soil produces to those only who labour, and in proportion to the industry of every one, where we may expect to find great multitudes; and even these multitudes will be found greater or less, in proportion as the turn of the inhabitants is directed to ingenuity and industry.

In such countries where industry is made to flourish, the free hands (of whom we have spoken above) will be employed in useful manufactures, which, being refined upon by the ingenious, will determine what is called the standard of taste; this taste will increase consumption, which again will multiply workmen, and these will encourage the production of food for their nourishment.

Let it therefore never be said, that there are too many manufacturers employed in a country; it is the same as if it were said, there are too few idle persons, too few beggars, and too many husbandmen.

We have more than once endeavoured to shew, that these manufacturers never can be fed but out of the superfluity of the farmers. It is a contradiction, I think, to say, that those who are fed upon the surplus of those who cultivate the soil are necessary for producing a sufficiency to themselves. For if even this surplus were to diminish, the manufacturers, not the labourers, would be the first to be extinguished for want of nourishment.

The importance of the distributive proportion of mankind into labourers and free hands appears so great, and has so intimate a connection with this subject, that it engages me to seek for an illustration of the principles I have been laying down, in an example drawn from facts, as they are found to stand in one of the greatest and most flourishing nations in Europe. But before I proceed farther in this part of my subject, I must examine the consequences of slavery with regard to the subject we are now upon. Relations here are so many and so various, that it is necessary to have sometimes recourse to transitions, of which I give notice to my reader, that he may not lose the connection.

Chap. VII
The Effects of Slavery upon the Multiplication and Employment of Mankind

Before I go on to follow the consequences of the above reasoning, I must stop to consider a difference of no small importance between ancient and modern times, which will serve to illustrate the nature of slavery, with regard to population and the employment of mankind.

We have endeavoured to lay down the principles which seem to influence this question, supposing all to be free. In this case, I imagine the human species will multiply pretty much in proportion to their industry; their industry will increase according to their wants, and these again will be diversified according to the spirit of the times.

From this I conclude, that the more free and simple the manners of any country are, caeteris paribus, the fewer inhabitants will be found in it. This is proved by experience everywhere. The Tartars, who freely wander up and down a country of vast extent, multiply but little; the savages in America, who live upon hunting, in a state of great independence; the inhabitants of several mountainous countries in Europe, where there are few manufactures, and where the inhabitants do not leave the country; in all such places mankind do not multiply. What is the reason of this? One would imagine, where there is a great extent of ground capable of producing food, that mankind should multiply until the soil refused to give more. I imagine the answer may be easily discovered from the principles above laid down.

Where mankind have few wants, the number of free hands necessary to supply them is very small, consequently very little surplus from the farmers is sufficient to maintain them. When therefore it happens, that any poor family in the class of free hands is very numerous, division there comes to be carried to its utmost extent, and the greatest part become quite idle, because there is no demand for their work. As long as they can be fed by the division of the emoluments arising from the labour of their parents, or by the charity of others, they live; when these resources fail, they become miserable. In so wretched a situation it is not easy to find bread. The farmers will not double their diligence from a charitable disposition. Those who have land will not allow those indigent people a liberty to raise grain in it for nothing; and although they should, the poor are not in a capacity to provide what is necessary for doing it. All other work is fully stocked, the wretched die, or extinguish without multiplying.

To make this more evident, let us suppose the wants of mankind, in any polite nation of Europe, which lives and flourishes in our days upon the produce of its own soil, reduced all at once to the simplicity of the ancient patriarchs, or even to that of the old Romans. Suppose all the hands now employed in the luxurious arts, and in every branch of modern manufactures, to become quite idle, and all foreign trade to be cut off, how could they be subsisted? What oeconomy could be set on foot, able to preserve so many lives useful to the state? Yet it is plain by the supposition, that the farmers of the country are capable of maintaining them, since they actually do so. It would be absurd to propose to employ them in agriculture, since there are enough employed in this, to provide food for the whole.

If it be certain that such people would die for want without any resource; must it not follow that, unless their parents had
found the means of maintaining them when children, and they
themselves the means of afterwards subsisting by their industry
in supplying wants, they could not have existed beyond their
first infancy?

This seems to strike deep against the populousness of the old
world, where we know that the wants of mankind, with regard to
trades and manufactures, were so few.

But in those days the wants of mankind were of a different
nature. At present, there is a demand for the ingenuity of man;
them, there was a demand for his person and service. Now,
provided there be a demand for man, whatever use he be put to,
the species will multiply; for those who stand in need of them
will always feed them, and, as long as food is to be found,
numbers will increase.

In the present times food cannot, in general, be found, but
by labour, and that cannot be found but to supply wants. Nobody
will feed a free man, more than he will feed the wild birds or
beasts of the field, unless he has occasion for the labour of the
one or flesh of the other.

In the old world the principles were the same, but the spirit
of nations was different. Princes wanted to have numerous armies.
Free states sought for power in the number of their citizens. The
wants of Mankind being few, and a simplicity of manners
established, to have encouraged industry, excepting in
agriculture, which in all ages has been the foundation of
population, would have been an inconsistency. To make mankind
labour beyond their wants, to make one part of a state work to
maintain the other gratuitously, could only be brought about by
slavery, and slavery was therefore introduced universally.
Slavery was then as necessary towards multiplication, as it would
now be destructive of it. The reason is plain. If mankind be not
forced to labour, they will labour for themselves only; and if
they have few wants, there will be little labour. But when states
come to be formed, and have occasion for idle hands to defend
them against the violence of their enemies, food at any rate must
be procured for those who do not labour; and, as by the
supposition, the wants of the labourers are small, a method must
be found to increase their labour above the proportion of their
wants.

For this purpose slavery was calculated: it had two excellent
effects with respect to population. The first, that, in
unpolished nations, living upon the spontaneous fruits of the
earth, and almost continually in war, lives were preserved for
the sake of making slaves of the captives. These, sold to private
people, or different states, were sure of being fed; whereas,
remaining in their own country, they occupied a place only,
which, by the force of the generative faculty, as has been
observed, was soon to be filled up by propagation: for it must
not be forgot, that when numbers are swept off, by any sudden
calamity, which does not proportionally diminish subsistence, a
new multiplication immediately takes place. Thus we perceive the
hurt done by plagues, by war, and by other devastations, either
among men, or cattle, repaired in a few years, even in those
countries where the standard number of both is seldom found to
increase. What immense quantities of cattle are yearly
slaughtered! Does any body imagine that if all were allowed to
live, numbers would increase in proportion? The same is true of
men.

The second advantage of slavery was, that in countries where
a good police prevailed, and where the people had fewer wants by
far than are felt in modern times, the slaves were forced to
labour the soil which fed both them and the idle freemen, as was the case in Sparta; or they filled all the servile places which freemen fill now, and they were likewise employed, as in Greece and in Rome, in supplying with manufactures those whose service was necessary for the state.

Here then was a violent method making mankind laborious in raising food; and provided this be accomplished, (by any means whatever,) numbers will increase.

Trade, industry, and manufactures, tend only to multiply the numbers of men, by encouraging agriculture. If it be therefore supposed, that two states are equally extended, equally fruitful, and equally cultivated, and the produce consumed at home, I believe they will be found equally peopled. But suppose the one laboured by free men, the other by slaves, what difference will be found in making war? In the first, the free hands must, by their industry and labour, purchase their food, and a day lost is in a manner a day of fasting: in the last, the slaves produce the food, they are first fed, and the rest costs nothing to the body of free men, who may be all employed in war, without the smallest prejudice to industry.

From these principles it appears, that slavery in former times had the same effect in peopling the world that trade and industry have now. Men were then forced to labour because they were slaves to others; men are now forced to labour because they are slaves to their own wants.

I do not, however, pretend, that in fact slavery in ancient times did every where contribute to population, any more than I can affirm that the spirit of industry in the Dutch is common to all free nations in our days. All that is necessary for my purpose is, to set forth the two principles, and to shew the natural effects of the one and the other, with respect to the multiplication of mankind and advancement of agriculture, the principal objects of our attention throughout this book.

I shall at present enlarge no farther upon this matter, but return to where I left off in the preceding chapter, and take up the farther examination of the fundamental distribution of inhabitants into labourers and free hands.

Chap. VII

What Proportion of Inhabitants is necessary for Agriculture, and what Proportion may be usefully employed in every other Occupation?

I have proposed this question, not with an intention to answer it fully, but to point out, how, with the proper lights given, it may be answered.

As I write under circumstances not the most favourable for having recourse to books, I must employ those I have. The article Political Arithmetic, of Mr Chambers's Cyclopedia, furnishes me with some extracts from Sir William Petty, and Dr Davenant, which I here intend to employ, towards pointing out a solution of the question proposed. These authors consider the state of England as it appeared to them, and what they say is conclusive with respect to that state only.

Sir William Petty supposes the inhabitants of England to be six millions, the value of grain yearly consumed by them ten millions sterling, the bushel of wheat reckoned at 5s., and that of barley at 2s. 6d. If we cast the two together, and reckon upon an average, this will make the quarter, or eight bushels of grain, worth 1l. 10s.: but in regard, the barley cannot amount to
one half of all the grain consumed, especially as there is a good
quantity of rye made use of, which is worth more than the barley,
though less than the wheat; let us suppose the grain worth 32s.
per quarter, at a medium; then ten millions sterling will
purchase six millions of quarters of grain, or thereabouts;
which, used for nourishment, in bread and beer, gives the mean
quantity of one quarter, or 512 pounds troy of grain for every
inhabitant, including the nourishment of his proportional part of
animals; supposing that Sir William attended to this
circumstance, for it is not mentioned by Chambers. And I must
observe, by-the-bye, that this computation may hold good as to
England, where people eat so little bread; but would not answer
in France, nor in almost any other country I have seen.

Dr Davenant, correcting Sir William's calculation, makes the
inhabitants 5,545,000. These, according to Sir William's prices
and proportions, would consume to the amount of 8,872,000l.
sterling, but the Dr carries it, with reason, a little higher,
and states it at 9,075,000l. sterling; the difference, however,
is inconsiderable. From this he concludes the gross produce of
the corn-fields to be about 9,075,000l. sterling. I make no
criticism upon this computation.

Next, as to the value of other lands; I find Sir William
reckons the gross produce of them in butter, cheese, milk, wool,
horses yearly bred, flesh for food, tallow, hides, hay, and
timber, to amount to 12,000,000l. sterling: The amount therefore
of the gross produce of all the lands in England must be equal to
these two sums added together, that is, to 21,075,000l. sterling.

From these data, the Dr values the yearly rent of corn-lands
at two million sterling, and those of pasture, &c. at seven
millions; in all, nine millions.

From this it appears, that the land-rents of England are to
the gross produce, as nine is to twenty-one, or thereabouts.

Let me now examine some other proportions.

The rents of the corn-lands are to the gross produce of them
as two is to nine; those of pasture, as seven to twelve.

Now it is very certain, that all rents are in a pretty just
proportion to the gross produce, after deducting three principal
articles.

First, The nourishment of the farmer, his family, and
servants.

Secondly, The necessary expences of his family, for
manufactures, and instruments for cultivating the ground.

Thirdly, His reasonable profits, according to the custom of
every country.

Of these three articles, let us distinguish what part implies
the direct consumption of the pure produce, from what does not.

Of the first sort are the nourishment of men and cattle, wool
and flax for clothing, firing, and other smaller articles.

Of the second are all manufactures bought, servants' wages,
the hire of labourers occasionally, and profits, either spent in
luxury, (that is, superfluity,) lent, or laid up.

The three articles above mentioned (which we have distributed
under two heads) being deducted from the gross produce, the
remaining value shews the land-rent.

This being the case, I am next to examine the cause of the
great disproportion between the rents of corn-lands, and those of
pasture, when compared with the gross produce, in order to draw
some conclusion, which may lead to the solution of the question
here proposed.

This difference must proceed from the greater proportion of
labouring and other inhabitants employed in consequence of
tillage; which makes the expense of it far greater than that of pasture. And since, in the one and the other, every article of necessary expense or consumption ought naturally to be proportionally equal among those concerned in both, that is, proportional to the number of labouring inhabitants; it follows, that the proportion of people employed in agriculture, and upon the account of it, in different countries, is nearly in the ratio of the gross produce, to the land-rent; or, in other words, in the proportion of the consumption made by the farmers, and by those employed necessarily by them, to the net produce, which is the same thing.

Now as the consumption upon corn-farms is $7/9$, and that upon pasture $5/12$, the proportion of these two fractions must mark the ratio between the populousness of pasture-lands, and those in tillage; that is to say, tillage-lands in England were, at that time, peopled in proportion to pasture-lands, as 84 is to 45, or as 28 to 15.

This point being settled, I proceed to another: to wit, the application of this net produce or surplus of the quantity of food and necessaries remaining over and above the nourishment, consumption, and expense, of the inhabitants employed in agriculture; and which we have observed above to be equal to the land-rents of England, that is to say, to nine millions yearly.

Must not this of necessity be employed in the nourishment, and for the use of those whom we have called the free hands; who may be employed in manufactures, trades, or in any other way, according to the taste of the times?

Now the numbers of a people, I take to be very nearly in the proportion of the quantity of food they consume; especially when a society is taken thus, in such accumulative proportion, and when all are supposed to be under the same circumstances as to the plenty of the year.

The whole gross produce of England we have said to be 21,000,000 l. sterling, of which 9 millions have remained for those not employed in agriculture; the farmers, therefore, and their attendants, must annually consume 12 millions; consequently the last class is to the first as 12 is to 9. If, therefore, according to Dr Davenant, there be 5,545,000 people in that kingdom, there must be about 3,168,571 employed or dependent upon agriculture, and 2,376,429 free hands for every other occupation. But this proportion of farmers will be found far less, if we reflect, that we have reckoned for them the total amount of the three articles above mentioned, that is to say, the total consumption they make, as well in manufactures, profits upon their labour, &c. as for food and necessaries: whereas there has been nothing reckoned for the free hands, but the land-rent; consequently there should be added to the number of the latter as many as are employed in supplying with all sorts of manufactures the whole of the farmers of England, and all those who depend upon them; and this number must be taken from one and added to the other class. If this number be supposed to amount to four hundred thousand, it will do more than cast the balance upon the opposite side.

From these matters of fact (so far as they are so) we may conclude:

First, That the raising of the rents of lands shows the increase of industry, as it swells the fund of subsistence consumed by the industrious; that is, by those who buy it.

Secondly, That it may denote either an increase of inhabitants, or the depopulation of the land, in order to assemble the superfluous mouths in villages, towns, &c, where
they may exercise their industry with greater convenience.

While the land-rents of Europe were very low, numbers of the inhabitants appeared to be employed in agriculture; but were really no more than idle consumers of the produce of it. This shall be further illustrated in the subsequent chapters.

Thirdly, The more a country is in tillage, the more it is inhabited, and the smaller is the proportion of free hands for all the services of the state. The more a country is in pasture, the less it is inhabited, but the greater is the proportion of free hands.

I do not pretend, as I have said above, that there is any calculation to be depended on in this chapter; I have only endeavoured to point out how a calculation might be made, when the true state of England comes to be known.

This question not being of a nature to enter into the chain of our reasoning, may be considered rather as incidental than essential; I have therefore treated it superficially and chiefly for the sake of the conclusions.

Our next inquiry will naturally be into the principles which determine the residence of inhabitants, in order to discover why, in all flourishing states, cities are now found to be every where on the growing hand.

Chap. IX

What are the Principles which regulate the Distribution of Inhabitants into Farms, Hamlets, Villages, Towns, and City?

Having pointed out the natural distribution of inhabitants into the two capital classes of which we have been treating, I am going to examine how far their employment must decide as to their place of residence.

First, When mankind is fed upon the spontaneous fruits of the earth, the distribution of their residence depends upon the division of the lands. If these are in common to all, then the inhabitants will be scattered abroad, or gathered together, according as the productions of the earth are equally distributed over the face of the country, or confined to some fruitful spots only.

Hence the Tartars wander with their flocks and feed upon them: hence the hunting Indians are scattered in small societies, through the woods, and live upon game: hence others, who feed upon the fruits of the earth, are collected in greater numbers upon the sides of rivers, and in watered valleys.

Where therefore the surface of the earth is not appropriated, there the place producing the food determines the place of residence of every one of the society, and there mankind may live in idleness, and remain free from every constraint.

Secondly, When the earth is not in common to those who live upon her spontaneous fruits, but is appropriated by a few, there either slavery or industry must be introduced among those who consume the surplus of the proprietors; because these will expect either service or work in return for their superfluity. In this case, the residence of the inhabitants will depend upon the circumstances we are going to consider; and the object of agriculture in countries where the surface of the earth is not broken up, being solely directed towards the gathering in of fruits, will determine the residence of those only who are necessary for that purpose: consequently it will follow, that in climates where the earth produces spontaneously, and in vast abundance, there may be found large cities; because the number of
those who are necessary for gathering in the fruits is small in proportion to the quantity of them; whereas in other countries, where the earth's productions are scanty, and where the climate refuses those of the copious and luxuriant kind, there will hardly be found any considerable town, because the number of those who are necessary for collecting the subsistence, bears a great proportion to the fruits themselves. I do not say, that in the first case there must be large towns, or that in the other there can be none; but I say that, in the first case, those who may be gathered into towns, bear a great proportion to the whole society; and that, in the second, they bear a small one.

I think I have found this principle confirmed by experience. When I compare the bulk and populousness of the cities of Lombardy, and still more, those of the watered provinces of Spain, with the inhabitants of the territory which maintains them, I find the proportion of the first vastly greater than in those of France and England; and still more again in these two last mentioned kingdoms, than in the more northern countries and provinces, where the earth's productions bear a less proportion to the labour bestowed in producing them. Now, although I allow that neither the one or the other is fed by spontaneous productions, yet still it may be inferred, that the more the climate contributes to favour the labour of man, the more the productions participate of the spontaneous nature.(7*)

Again, in countries where labour is required for feeding a society, the smaller the proportion of labourers, the greater will be that of the free hands. Fruits which are produced by annual labour, and still more, such as are the consequence of a thorough cultivation, (such as luxuriant pasture,) give returns far superior to the nourishment of those employed in the cultivation; consequently, all the surplus is consumed by people not employed in agriculture; consequently, by those who are not bound to reside upon the spot which feeds them, and who may choose the habitation best adapted for the exercise of that industry which is most proper to produce an equivalent to the farmers for their superfluities.

From this it is plain that the residence of the farmers only is essentially attached to the place of cultivation. Hence, farms in some provinces, villages in others.

I now proceed to the other class of inhabitants; the free hands who live upon the surplus of the farmers.

These I must subdivide into two conditions. The first, those to whom this surplus directly belongs, or who, with a revenue in money already acquired, can purchase it. The second, those who purchase it with their daily labour or personal service.

Those of the first condition may live where they please; those of the second, must live where they can. The residence of the consumers determines, in many cases, that of the suppliers. In proportion, therefore, as those who live where they please choose to live together, in this proportion must the others follow them. And in proportion as the state thinks fit to place the administration of government in one place, in the same proportion must the administrators, and every one depending upon them, be gathered together. These I take to be principles which influence the swelling of the bulk of capitals, and smaller cities.

When the residence of the consumer does not determine that of him who supplies it, other considerations are allowed to operate. This is the case in what may properly be called manufactures, distinguished from trades, whether they be for home-consumption, or foreign exportation. These considerations are,
First, Relative to the place and situation of the establishment; which gives a preference to the sides of rivers and rivulets, when machines wrought by water are necessary; to the proximity of forests and collieries, when fire is employed; to the place which produces the substance of the manufacture; as in mines, collieries, brick-works, &c.

Secondly, Relative to the convenience of transportation, as upon navigable rivers, or by great roads.

Thirdly, Relative to the cheapness of living, consequently not (frequently) in great cities, except for their own consumption. But it must be observed, that this last consideration can hardly ever be permanent: for the very establishment being the means of raising prices, the advantage must diminish in proportion as the undertaking comes to succeed. The best rule therefore is, to set down such manufactures upon the banks of navigable rivers, where all necessary provisions may be brought from a distance at a small cost. This advantage is permanent, the others are not; and may prove in time hurtful, by a change in those very circumstances which decided as to the choice of the situation. From the establishment of manufactures we see hamlets swell into villages, and villages into towns.

Sea-ports owe their establishment to foreign trade. From one or other of these and similar principles, are mankind gathered into hamlets, villages, towns, and cities.

Chap. X

Of the Consequences which result from the Separation of the two principal Classes of a People, the Farmers and the Free Hands, with regard to their Dwelling

I am next going to examine the consequences resulting to the state, to the citizens, and to the landed interest, from this kind of separation, as I may call it, between the parent earth and her laborious children, which naturally takes place every where in proportion to the progress of industry, luxury, and the swift circulation of money.

As to the state, it is, I think, very plain, that, without such a distribution of inhabitants, it would be impossible to levy taxes. For as long as the earth nourishes directly those who are upon her surface, as long as she delivers her fruits into the very hand of him who consumes them, there is no alienation, no occasion for money, consequently no possibility of establishing an extensive taxation, as shall in its place be fully explained. From this principle is, I imagine, to be deduced the reason, why we find taxation so little known under the feudal form of government.

The personal service of the vassals, with their cattle and servants upon all occasions, made the power and wealth of the lords, and their rents were mostly paid in kind. They lived upon their lands, were commonly jealous of one another, and had constant disputes. This was a very good reason to keep them from coming together. Towns were situated round their habitations. These were mostly composed of the few tradesmen and manufacturers that were in the country. The lord's judge, his fiscal, and his court of record, added to these numbers; lawsuits, and the lord's attendance, brought the vassals frequently together; this gave encouragement to houses of entertainment; and this I take to be the picture of the greatest part of small towns, if we ascend three or four hundred years from the present time.

Cities were the residence of bishops. These lords were very
independent of the civil government, and had at the same time the
principal direction in it. They procured privileges to their
cities, and these communities formed themselves by degrees into
small republics: taxes here have ever been familiar. The feudal
lords seldom appeared here, and the inferior classes of the
people enjoyed liberty and ease in these cities only.

In some countries of Europe, as in Germany, the principal
citizens, in time, became patricians. In France certain offices
of public trust sometimes procured nobility to those who bore
them, and always consideration. The representatives of the
citizens were even admitted into the states, and formed the tiers
état. Elsewhere they received casual marks of distinction from
the sovereign, as the Lord Mayor of London does to this day
usually receive knighthood. In short, the only dawning of public
liberty to be met with during the feudal government, was in the
cities; no wonder then if they increased.

Upon the discovery of America and the East-Indies, industry,
trade, and luxury, were soon introduced in the kingdoms of Spain,
France, and England: the grandeur and power of the Hanstowns had
already pointed out to sovereigns the importance of these
objects.

The courts of princes then became magnificent; the feudal
lords insensibly began to frequent them with more assiduity than
formerly. The splendor of the prince soon eclipsed those rays
which shone around them upon their own lands. They now no more
appeared to one another as objects of jealousy, but of emulation.
They became acquainted, began to relish a court life, and every
one proposed to have a house in the capital. A change of
habitation made a change of circumstances, both as to city and
country. As to the city: so far as inhabitants were increased, by
the addition of the great lords, and of those who followed their
example, so far demand increased for every sort of provision and
labour; and this quickly drew more inhabitants together. Every
one vied with another in magnificence of palaces, clothes,
equipages. Modes changed and by turns enlivened the different
branches of ingenuity. Whence came so great a number of
inhabitants all of a sudden? He who would have cast his eyes on
the deserted residences of the nobility, would quickly have
discovered the source; he would there have seen the old people
weeping and wailing, and nothing heard among them but complaints
of desolation: the youth were retired to the city: there was no
change as to them.

This is no doubt a plain consequence of a sudden revolution,
which never can happen without being attended with great
inconveniences. Many of the numerous attendants of the nobility
who uselessly filled every house and habitation belonging to the
great man, were starving for want. He was at court, and calling
aloud for money, a thing he was seldom accustomed to have
occasion for, except to lock up in his chest. In order to procure
this money, he found it expedient to convert a portion of the
personal services of his vassals into cash: by this he lost his
authority. He then looked out for a farmer (not a husbandman) for
an estate which he formerly consumed in its fruits. This
undertaker, as I may call him, began by dismissing idle mouths.
Still greater complaints ensued. At last, the money spent in the
city began to flow into the hands of the industrious: this raised
an emulation and the children of the miserable, who had felt the
sad effects of the revolution, but who could not foresee the
consequences, began to profit by it. They became easy and
independent in the great city, by furnishing to the extravagance
of those under whose dominion they were born.
This progression is perhaps too minutely traced to be exact; I therefore stop, to consider the situation of affairs at that period, when all the inconveniences of the sudden revolution had ceased, and when things were come to the state in which we now find them. Capitals swelled to a great extent; Paris and London appearing monstrous to some, as being a load upon the rest of the country. This must be examined.

We agree, I suppose, that the inhabitants of cities are not employed in agriculture, and we may agree that they are fed by it; we have examined into the causes of the increase of cities, and we have seen the fund provided for their subsistence, to wit, the surplus of fruits produced by husbandmen.

What are then the advantages resulting to the citizens from this great increase of their city? I cannot find any great benefit resulting to each individual from this circumstance; but I conclude, that the same advantages which many find in particular, must be common to great numbers, consequently great numbers are gathered together.

The principal objections against great cities are, that health there is not so good, that marriages are not so frequent as in the country, that debauchery prevails, and that abuses are multiplied.

To this I answer, that these objections lie equally against most cities, and are not peculiar to those complained of for their bulk; and that the evils proceed more from the spirit of the inhabitants, than from the size of the capital.

It is further urged, that the number of deaths exceeds the number of births in great cities; consequently smaller towns, and even the country, is stripped of its inhabitants, in order to recruit these capitals.

Here I first deny, that in all capitals the number of deaths exceeds the number of births; for in Paris it is otherwise. But supposing the assertion to be true, what conclusion can be drawn from it, except that many people who are born in the country die in town. That the country should furnish cities with inhabitants is no evil. What occasion has the country for supernumerary hands? If it has enough for the supply of its own wants, and of the demands of cities, has it not enough? Had it more, the supernumeraries would either consume without working, or, if added to the class of labourers, instead of being added to the number of free hands, would overturn the balance between the two classes; grain would become too plentiful, and that would cast a general discouragement upon agriculture: whereas, by going to cities, they acquire money, and therewith purchase the grain they would have consumed, had they remained in the country; and this money, which their additional labour in cities will force into circulation, would otherwise have remained locked up, or at least would not have gone into the country, but in consequence of the desertion of the supernumeraries. The proper and only right encouragement for agriculture, is a moderate and gradual increase of demand for the productions of the earth: this works a natural and beneficial increase of inhabitants; and this demand must come from cities, for the husbandmen never have occasion to demand; it is they who offer to sale.

The high prices of most things in large cities is a benefit surely, not a loss to the country. But I must observe, that the great expence of living in capitals does not affect the lower classes, nor the moderate and frugal, in any proportion to what it does the rich. If you live on beef, mutton, bread, and beer, you may live as cheap in London and in Paris as in most cities I know. These articles abound, and though the demand be great, the
provision made for supplying it is in proportion. But when you come to fish, fowl, and game; delicacies of every kind brought from far, by the post, by ships, and by messengers; when you have fine equipages, large houses, expensive servants, and abundance of waste in every article, without one grain of oeconomy in any, it is no wonder that money should run away so fast. I do not, from what has been said, conclude, that there is any evident advantage in having so overgrown a capital as London in such a kingdom as England; but that I do not find great force in the objections I have met with against it. That there may be others which I do not know, I will not deny, because I am not sufficiently acquainted with that kingdom to be a competent judge of the matter.

Let me now conclude this chapter, by mentioning in what respects I think cities an advantage, in general, to a country; and, as I go along, I shall point out wherein they prove a disadvantage, in particular, to some parts of it.

The general advantages of them are:

First, To remove the necessary load upon the land; those idle people, who eat up a part of the produce of labour without contributing to it.

Secondly, The opportunity of levying taxes, and of making these affect the rich, in proportion to the consumption they make, without hurting industry or exportation.

Thirdly, The advantages resulting to the landed interest are no less considerable. This is proved by universal experience; for we see every where, that the moment any city, town, or village, begins to encrease, by the establishment of trade or manufactures, the lands round about immediately rise in their value. The reason of this seems easily deduced from the above principles.

When a farmer has got his oeconomy under right regulations, not one supernumerary, nor useless mouth, but abundance of hands for every kind of labour, which is generally the case near towns and cities, the proximity of them discharges him of every superfluity. His cattle consume the exact quantity of grain and of forage necessary; what remains is money, a superfluous egg is money; a superfluous day of a cart, of a horse, a superfluous hour of a servant, is all money to the farmer. There is a constant demand for every thing he can do or furnish. To make this the more sensibly perceived, remove into a province, far from a town, and compare situations. There you find abundance of things superfluous, which cannot be turned into money, which therefore are consumed without much necessity, and with little profit. It is good to have an estate there, when you want to live upon it; it is better to have one near the great town, when you do not.

It may be alleged, that the disadvantages felt by the distant farmer and proprietor, when they compare situations with those residing near the town, proceed from the town: this must be examined.

If the town consume the produce of this distant farm, it must consume it in competition with every place at a smaller distance; consequently this competition must do more good than harm to the distant farm. If the city consume none of the produce, wherein does it affect it? It may be answered, that, by entering into competition with the distant farmer for the labouring inhabitants, these desert agriculture, in favour of a more lucrative occupation, to be found in the city. Scarcity of hands in the country raises the price of labour on one hand, while it diminishes the price of subsistence on the other; consequently
the farmer suffers a double disadvantage. Of this there can be no
doubt; but as these revolutions cannot by their nature be sudden,
it becomes the duty of the statesman, whom I suppose constantly
awake, directly to set on foot some branch of industry in every
such distant part of the country; and as prices of subsistence
will diminish for a while, for the reasons above-mentioned, this
will prove an encouragement to the establishment; this again will
accelerate propagation, as it will prove an outlet for children,
and, in a short time, the farmer will find himself in a better
situation than ever. But even without this assistance from
industry the state, a few years will set all to rights, provided
the spirit of is kept up: for cities, by swelling, extend their
demand to the most distant corners of a country; the inhabitants
who desert do not cease to consume, and thereby they repair the
hurt they do by their desertion. I appeal to experience for the
truth of this. Do we not perceive demand extending every year
farther and farther from great capitals? I know places in France
which, twenty years ago, never knew what it was to send even a
delicacy to Paris, but by the post, and which now send thither
every week loaded waggons, with many thousand weight of
provisions, so much that I may almost say, that a fatted chicken
in the most distant province of that country can be sold with
great profit in the Paris market during all the winter season;
and cattle carry thither their own flesh cheaper than any waggon
can. What distant farm then can complain of the greatness of that
noble city? There is however a case, where a distant part of a
country may suffer in every respect, to wit, when the revolution
is sudden; as when a rich man, who used to spend his income in
his province, for the encouragement of industry, goes to Paris or
London, and stays away for a year or two, without minding the
interest of the estate he abandons. No doubt this must affect his
province in proportion; but in every revolution which comes on
gradually by the desertion of such only as lived by their
industry, new mouths are born and supply the old. The only
question is about employing them well: while you have superfluous
food and good oeconomy, a country will always reap the same
benefit from her natural advantages.

Fourthly, Another advantage of cities is, the necessity
arising from thence of having great roads, and these again prove
a considerable encouragement to agriculture.

The miserable condition of roads over all Europe almost, till
within these hundred years, is a plain proof of the scanty
condition of the cities, and of the small encouragement formerly
given towards extending the improvement of the soil.

Let any one examine the situation of the landed interest
before the making of great roads in several provinces in France,
and compare it with what it is at present. If this be found a
difficult inquiry, let him compare the appearance of young
gentlemen of middling fortune, as he finds them at Paris, or in
their regiment, with that of their fathers, who live in their
province in the old way, and he will have a very good opportunity
of perceiving the progress of ease and refinement in this class,
which has proceeded from no other cause than the improvement of
the soil. People complain that prices are risen; of this there is
no doubt with regard to many articles. Is not this quite
consistent with our principles? It is not because there is now a
larger mass of money in the kingdom, though I allow this to be
true, and also that this circumstance may have contributed to
raise prices; but the direct principle which has influenced them,
and which will always regulate their rise and fall, is the
increase of demand. Now the great roads in a manner carry the
goods to market; they seem to shorten distances, they augment the number of carriages of all sorts, they remove the inconveniences above-mentioned resulting from the distance of the city. The more distant parts of the country come to market, in competition with the farmers in the neighbourhood of the cities. This competition might make the rents of lands lying round such cities as were the first to encourage industry, sink in their value. But the hurt in this respect done to the proprietors of these lands would soon be repaired. The cities would increase in bulk, demand would increase also, and prices would rise anew. Every thing which employs inhabitants usefully promotes consumption; and this again is an advantage to the state, as it draws money from the treasures of the rich into the hands of the industrious. The easy transportation of fruits produces this effect: the distant farmer can employ his idle hours in providing, and the idle days of his servants and cattle in sending things to market, from farms which formerly never knew what it was to sell such productions.

I shall carry these speculations no farther, but conclude by observing, that the making of roads and navigable canals must advance population, as they contribute to the advancement of agriculture.

Chap. XI

Of the Distribution of Inhabitants into Classes; of the Employment and Multiplication of them

Having deduced the effects of modern policy, in assembling so large a proportion of inhabitants into cities, it is proper to point the principles which should direct the statesman to the proper means of providing, supporting, and employing them. Without this they neither can live nor multiply. Their parent, Earth, has in a manner banished them from her bosom; they have her no more to suckle them in idleness; industry has gathered them together, labour must support them, and this must produce a surplus for bringing up children. If this resource should fail, misery will ensue: the depopulation of the cities will be followed by the ruin of the lands, and all will go to wreck together. We have already laid down the principles which appear the most natural to engage mankind to labour, supposing all to be free and we have observed how slavery, in former times, might work the same effect, as to peopling the world, that trade and industry do now; men were then forced to labour because they were slaves to others, men are forced to labour now because they are slaves to their own wants: provided man be made to labour, and make the earth produce abundantly, and provided that either authority, industry, or charity, can make the produce circulate for the nourishment of the free hands, the principle of a great population is brought to a full activity.

I shall now suppose these principles to be well understood. Wants promote industry, industry gives food, food increases numbers: the next question is, how numbers are to be well employed?

It is a general maxim in the mouth of every body; increase the inhabitants of the state: the strength and power of a state is in proportion to the number of its inhabitants.

I am not fond of condemning opinions; but I am very much for limiting general propositions. I have hardly ever escaped being led into error by every one I have laid down. Nothing is so systematical, nothing so pretty in a treatise as general maxims; they facilitate the distribution of our ideas, and I have never
been able to dash them out but with a certain regret.

As I often recur to private oeconomics for clearing up my ideas it be a general rule, that concerning the political, I have asked myself, if it be a general rule, that, the master of a family should increase the mouths of it, to the full proportion of all he can feed? Now it is my opinion, that in a small family well composed, and where every one is properly employed, both master and servants are much happier than in others vastly more numerous, where the same order and regularity is not kept up; and that a small number of well disciplined soldiers is more formidable, and really stronger, than the numerous populace of a large city.

The use of inhabitants is to be mutually serviceable one to another in particular, and to the society in general. Consequently, every state should, in good policy, first apply itself to make the inhabitants they have answer this purpose, before they carry their views towards augmenting their numbers. I think it is absurd to wish for new inhabitants, without first knowing how to employ the old; and it is ignorance of the real effects of population, to imagine that an increase of numbers will infallibly remove inconveniences which proceed from the abuses of those already existing.

I shall then begin by supposing that inhabitants require rather to be well employed than increased in numbers.

If I know the number of inhabitants, I may know the proportion which die every year: consequently, I know how many pairs of breeders are necessary to keep up the stock. If I want to raise twenty bushels of grain only, I do not sow my lands with twenty bushels. If I have as many children born as there are people who die, I have enough by the supposition. But these children must be raised proportionally, from the different classes of inhabitants, which I here consider as distributed into two conditions; those who do not labour, and those who do. May I not venture to say, that there is no absolute necessity that those of the first class should multiply in order to recruit the second. If then the second class is kept up to its proper standard by its own multiplication, and if their work be all consumed, will it not be found that the diminution of those mouths who do not work, and which appear useful in consideration only of the consumption they make, is no real loss to the nation? But to this it is objected, that if the number of the first class be diminished, the work of the second will lie upon hand.

Here I look for my answer from what daily experience points out. Two persons (A) and (B) have each 1000 l. a year; (A) has many children, (B) has none: they both spend their income; (A) upon the necessaries of life for his family, and for the education of his children; for the supplying of which, those of the working class only are employed, for whoever does or gives any thing for money, I consider as a worker: (B) spends his income as a fashionable young gentleman: he has a fine chariot, abundance of footmen in laced liveries; in short, without examining into the particulars of his expence, I find the whole 1000 l. spent at the end of the year. Neither (A) or (B) do any work; or are any of (A’s) children necessary as a supply to the working hands, by the supposition. Is it not true then, that (B) has consumed as much work or service, for these I consider as the same thing, as (A) with his family? Nay, I may still go farther, and affirm, that (B) has contributed as much, if not more, to population than (A). For if it he true, that he who gives food gives numbers, I say, that the expence of (B) has given food to the children of the industrious employed by him: consequently,
instead of having directly contributed to the increase of the idle of the state, which is the case with (A), he has indirectly contributed to the multiplication of the industrious. What good then does the state reap from (A’s) children, from his marriage, from his multiplication? Indeed, I see no harm although he had remained a bachelor: for those who produce idle consumers only, certainly add neither riches, strength, or ease to a state. And it is of such people alone that there is any question here.

From this I conclude, that there can be no determinate number of rich idle consumers necessary to employ a determinate number of industrious people, no more than of masters to employ a fixed number of menial servants. Do we not see a single man frequently attended by more servants than are necessary when he gets a wife and family? nay, it many times happens, that a young man, upon his marriage, diminishes the number of his domestics, in order to give bread to his children.

If riches be calculated, as I hope to prove, for the encouragement of industry; if circulation is to be accelerated by every method, in order to give bread to those who are disposed to work, or, in other words, who are disposed to become vigorous members of the commonwealth, by contributing with their strength, their ingenuity, or their talents, to supply her wants, to augment her riches, to promote and administer a good government at home, or to serve it abroad: then, I say, the too great multiplication of those who come under none of these classes, the idle consumers as I have called them, contribute directly to make the other part languish.

There is no governing a state in perfection, and consequently no executing the plan for a right distribution of the inhabitants, without exactly knowing their situation as to numbers, their employment, the gains upon every species of industry, the numbers produced from each class. These are the means of judging how far those of a particular trade or occupation are in a situation to bring up a family. To examine, on the other hand, the state of the higher classes who do not labour, the ease of their circumstances, and the use the state has for their service; this may appear superfluous; since those who do not work, must be supposed to have wherewithal to live; and consequently, not to stand in need of assistance. But this is not everywhere, nor always the case; and many excellent subjects are lost to a state, for want of a proper attention in the statesman to this object.

I have observed how necessary a thing it is to govern a people according to their spirit; now by governing I understand, protecting, cherishing, and supporting, as well as punishing, restraining, and exacting. If, therefore, there be found in any country, a very numerous nobility, who look upon trade and the inferior arts as unbecoming their birth; a good statesman must reflect upon the spirit of former times, and compare it with that of the present. He will then perceive, that these sentiments have been transmitted from father to son, and that six generations are not elapsed since, over all Europe, they were universally adopted: that, although the revolution we talked off in the 10th chapter has in effect rendered them less adapted to the spirit of the present times, they are however productive of excellent consequences; they serve as a bulwark to virtue, against the allurements of riches; and it is dangerous to force a set of men who form a considerable body in a state, from necessity, to trample under foot, what they have been persuaded from their infancy to be the test of a noble and generous mind.

About two hundred years ago, the nobility of several nations,
(I mean, by this term, all people well born, whether adorned with particular marks of royal favour or not,) used to live upon the produce of their lands. In those days there was little luxury, little circulation; the lands fed numbers of useless mouths, in the modern acceptation of useless, consequently produced a very moderate income in money to the proprietors, who notwithstanding were the most considerable persons in the state. This class of inhabitants remaining inactive in the country, during the revolution above mentioned, have, in consequence of the introduction of industry, trade and luxury, insensibly had the balance of wealth, and consequently of consideration turned against them. Of this there is no doubt. This class however has retained the military spirit, the lofty sentiments; and notwithstanding their depression in point of fortune, are found calculated to shine the brightest, when set in a proper elevation. In times of peace, when trade flourishes, the lustre of those who wallow in public money, the weight and consideration of the wealthy merchant, and even the ease and affluence of the industrious tradesman, eclipse the poor nobility; they become an object of contempt to bad citizens, an object of compassion to the good; and political writers imagine they render them an important service, when they propose to receive them into the lower classes of the people. But when danger threatens from abroad, and when armies are brought into the field, compare the behaviour of those conducted by a warlike nobility, with those conducted by the sons of labour and industry; those who have glory, with those who have gain for their point of view. Let the state suffer only this nobility to languish without a proper encouragement, there is no fear but they will soon disappear; their lands will become possessed by people of a way of thinking more à-la-mode, and the army will quickly adopt new sentiments, more analogous to the spirit of a moneyed interest.

I find nothing more affecting to a good mind, than to see the distress of a poor nobility in both sexes. Some have proposed trade for this class. Why do you not trade? I answer, for the nobility; because, in order to trade, I must have money. This objection is unanswerable. Why then do you not apply to other branches of industry? If it is the state who is supposed to ask the question, I ask, in my turn, What advantage she can reap from their industry? What profit from their becoming shop-keepers, weavers, or taylors? Are not, or ought not all these employments to be provided with hands from their own multiplication? What advantage can she reap by the children of one class taking the bread out of the mouths of another?

If the sentiments in which the nobility have been educated, prove detrimental to the state, throw a discouragement upon them. If birth is to be no mark of distinction, let it not be distinguished by any particular privilege, which in appearance sets this class above the level of those with whom the state intends it should be incorporated. You do not make your valet-de-chambre get behind your coach, though upon an occasion it might be convenient, and though perhaps he had been your footman the day before; you would even turn him out of doors, did he not change his company with his rank.

If you cannot afford to have a nobility, let it die away: grant, as in England, the title of noble to one of a family only, and let all the rest be commoners; that is to say, distinguished by no personal privilege whatsoever from the lowest classes of the people. But if you want them to serve you as soldiers, and wish they should preserve those sentiments you approve of in a soldier, take care at least of their children. If these appear to
you poor and ragged, while they are wandering up and down their father’s lands, chasing a wretched hare or a partridge compare them, when in the troops, with those of your wealthy neighbours, if any such you have.

The establishment of an hôtel militaire shews that there are some people at least who lend an ear to such representations. I do not propose that a prince should divert into this channel those streams of wealth which flow from every part of the state, though nothing is more reasonable than for men to pay in order to protect their gains; but let a tax be imposed upon noble property, and let it be appropriated for the education of the generous youth from their earliest years. There the state will have all under her eye, they are her children, her subjects, and they ask no more than to be taken from the obscurity of their habitations, and rendered capable of being employed while young and vigorous. When they have done their task, the country which produced them will receive them back into her warm bosom; there they will produce others like themselves, and support the spirit and propagation of their own class, without becoming any charge upon others.

A statesman should make it his endeavour to employ as many of every class as possible, and when employment fails in the common run of affairs, to contrive new outlets for young people of every denomination. The old and idle are, in many particulars, lost beyond recovery.

The mutual relations likewise, through industry, between class and class, should be multiplied and encouraged to the utmost. Relations by marriage, I am apt to believe, prove here more hurtful than beneficial. That is to say, I would rather discourage the intermarriage of the persons of different classes; but I would encourage, as much as possible, all sorts of mutual dependences between them, in the way of their trades. The last tends to keep every one employed, according to the wants and spirit of his class; the first is productive in general of no good effect that I can perceive; which is reason sufficient for a state to give at least no encouragement to such marriages, and this is all the restraint proper to be imposed.

Such members of the society as remain unemployed, either from natural infirmities or misfortunes, and who thereby become a load upon others, are really a load upon the state. This is a disease which must be endured. There is no body, no thing, without diseases. A state should provide retreats of all sorts, for the different conditions of her decayed inhabitants: humanity, good policy, and christianity, require it. Thus much may be said in general upon the principles which direct the employment and distribution of inhabitants, which in every state must be different, according to circumstances relating to the extension, situation, and soil of the country, and above all, to the spirit of the people. I am next to offer some considerations with regard to the proper methods of augmenting numbers.

Chap. XII

Of the great Advantage of combining a well digested Theory and a perfect Knowledge of Facts with the practical Part of Government, in order to make a People multiply

We have the happiness to live in an age where daily opportunities offer, of perceiving the difference between exercising an art according to the mechanical received practice, and according to the principles which study and refinement have
introduced for bringing it to perfection. This will appear in the strongest light to one who compares the operation of building an ordinary house, with that of executing a great public work, where the most able architects are employed; the making a common parish road, with that of a military way, through mountains, forests, and marshes. In the first, every difficulty appears unsurmountable: in the second, the greatest obstacles are made to vanish. By comparing these things, we distinguish between the artist, who proceeds by the rules of the science, and the ordinary tradesman, who has no other resource than common practice, aided by his own ingenuity.

Every branch of science must be carried to perfection by a master in it, formed by the hand of nature, and improved by application and experience. The great genius of Mr de Colbert saw through the confusion and perplexity of the administration of the French finances; he invented resources for swelling the public treasure, which never would have been liable to so many inconveniences as are complained of, had the administration been conducted with as much disinterestedness, as it was set on foot with ability. The genius of Mr Law was original as to figures and paper credit. Sir Robert Walpole discovered new principles of taxation; he extended the plan of public credit, and reduced the application of it to a science. These were born statesmen in the common acceptation of the word, they were creators of new ideas, they found out new principles for the government of men, and led them by their interest to concur in the execution of their plans. Men of a speculative disposition may broach hints, although the force of theory, destitute of practice, and unassisted by experiment, be not sufficient to carry them the length of forming a plan. A great genius, with power and authority, has occasion for no more than a hint to strike out the system, and to carry it, with success, into execution.

No problems of political oeconomy seem more obscure than those which influence the multiplication of the human species, and which determine the distribution and employment of them, so as best to advance the prosperity of each particular society. I have no where found these matters treated to my wish, nor have I ever been able to satisfy myself concerning them. There are many clouds which still cover the fruitful fields of this science; and until these be dissipated, the political eye cannot take in the whole landscape, nor judge of the deformities which appear in the many representations which our modern painters are daily giving of it.

I may here, without an imputation of vanity, put myself so far upon a level with the great Montesquieu, as to adopt the saying of Correggio, Io anche son pittore; I am also a dauber; for I frankly acknowledge my own incapacity to treat this subject with all the perspicuity it deserves: my frequent repetitions, and my often returning to it at different times, in order to clear up my ideas and those of my readers, shews plainly, that I am sensible of my own insufficiency. By setting it, however, in different lights, and viewing it as it were from different stations, perhaps both my reader and I may come at last to see a little clearer.

In a former chapter, I have endeavoured to lay down the principles which influence multiplication; but alas! they are all so general, that they can be considered only as the most remote. They may satisfy a slight speculation, but can be of little use in practice. I have principally insisted upon those which are found to operate at all times among societies where primitive simplicity prevails. Now this matter comes to be examined in a
more complex light, as relative to the manners of modern mankind, which no statesman, however able, can change; where trade, industry, luxury, credit, taxes, and debts, are introduced. In these the most polite nations of Europe are involved. This is a chain of adamant, it hangs together by a cohesion, which the successive revolutions of three centuries have so cemented with the spirit of nations, that it appears to be indissoluble. It is not my business to examine how far the modern system is to be preferred to the ancient; my point of view is, to investigate how a statesman may turn the circumstances which have produced this new plan of oeconomy to the best advantage for mankind, leaving the reformation of such a plan to time and to events, of which I am not the master. Schemes for recalling ancient simplicity and for making mankind honest and virtuous, are beautiful speculations: I admire them as much as any body, but not enough to believe them practicable in our degenerate age.

If therefore the principles I here lay down appear contradictory to so amiable a system of policy, let no man thence conclude anything to my disadvantage upon the account of my particular opinion concerning it, which is a matter of no importance whatsoever. My object is to examine the consequences of what we feel and see daily passing, and to point out how far the bad may be avoided, and the good turned to the best advantage.

The loss of ancient simplicity, and the introduction of this complicated scheme of living, has rendered the mechanism of government infinitely more difficult, and almost every disorder in the political body affects multiplication. Depopulation is as certain a mark of political diseases, as wasting is of those of the human body. The increase of numbers in a state shews youth and vigour: when numbers do not diminish, we have an idea of manhood, and of age when they decline.

The importance of the subject therefore requires me to bring it once more upon the carpet, in order to inquire into the proper methods of restoring and preserving youth, and of diffusing vigour into every articulation, into every vein, into every nerve, as I may say, of a modern society.

In the republic of Lycurgus an unmarried man met with no respect; because no reason but debauchery could prevent his marrying. Marriage was no load in a state where all were fed and taken care of at the public charge. A Spartan who did not marry, was considered as one who refused to contribute towards recruiting of the army, merely to gratify a vicious habit.

The jus trium liberorum, and the other encouragements given by Augustus Caesar to engage the Romans to marry, were calculated chiefly for the nobility, and for the citizens only, but not at all for the inferior class (the slaves) bound to labour. The vice to be corrected, and that which the emperor had in his eye in those institutions, was the prodigal and dissolute life of rich men who lived in celibacy. This affected the Roman state, and deprived it of its principal force, the military power, the equites. Judge of the force of this class by the numbers of them destroyed at Cannae. In those days, the chief encouragement to multiplication was to be directed towards the higher classes: the lower classes of the people (by far the most numerous in all countries and in all ages) were easily recruited, by the importation of slaves, as they are now in the West Indies, where, consequently, the same principle must naturally operate, which fixed the attention of the wise emperor. The state of affairs in Europe, and in England particularly, is changed entirely, by the establishment of universal liberty. Our lowest classes are
absolutely free; they belong to themselves, and must bring up their own children, else the state becomes depopulated. There is no resource to us from importation, whether by ships, or acts of parliament for naturalization. We shall always have a numerous and free common people, and shall constantly have the same inconveniences to struggle with, as long as the lowest classes remain in such depression as not to be able to support their own numbers. Here then lies the difficulty. In order to have a flourishing state, which Sir William Temple beautifully compared to a pyramid, we must form a large and solid basis of the lowest classes of mankind. As the classes mount in wealth, the pyramid draws narrower until it terminate in a point, (as in monarchy,) or in a small square, as in the aristocratical and mixed governments. This lowest class therefore must be kept up, and, as we have said, by its own multiplication. But where every one lives by his own industry, a competition comes in, and he who works cheapest gains the preference. How can a married man, who has children to maintain, dispute this preference with one who is single? The unmarried therefore force the others to starve; and the basis of the pyramid is contracted. Let this short sketch of a most important part of our subject suffice at present; it shall be taken up and examined at more length, in the chapter concerning physical necessaries, or natural wants.

From this results the principal cause of decay in modern states: it results from liberty, and is inseparably connected with it.

Several modern writers upon this subject, recommend marriage, in the strongest manner, to all classes of inhabitants; yet a parish priest might, properly enough, be warranted not to join a couple unless they could make it appear that their children were not likely to become a burden to the parish. Could any fault be found, reasonably, with such a regulation? Those who are gratuitously fed by others are a load upon the state, and no acquisition, certainly, so long as they continue so. Nothing is so easy as to marry; nothing so natural, especially among the lower sort. But as in order to reap, it is not sufficient to plow and to sow, so in order to bring up children, it is not sufficient to marry. A nest is necessary for every animal which produces a helpless brood: a house is the nest for children; but every man who can beget a child cannot build or rent a house.

These reflections lead me to make a distinction which I apprehend may be of use in clearing up our ideas concerning population. Let me therefore consider the generation of man in a political light, and it will present itself under two forms. The one as a real multiplication; the other as procreation only.

Children produced from parents who are able to maintain them, and bring them up to a way of getting bread for themselves, do really multiply and serve the state. Those born of parents whose subsistence is precarious, or which is proportioned to their own physical necessary only, have a precarious existence, and will undoubtedly begin their life by being beggars. Many such will perish for want of food, but many more for want of ease; their mendicity will be accompanied with that of their parents, and the whole will go to ruin; according to the admirable expression of the Marechal de Vauban, in his Dixime Royale. La mendicite, says he, est un mal qui tue bientot son homme. He had many examples of the truth of it before his eyes; whoever has not, must have seen little of the world.

When marriage is contracted without the requisites for multiplication, it produces a procreation, attended with the above mentioned inconveniences; and as by far the greater part of
inhabitants are in the lower classes, it becomes the duty of a statesman to provide against such evils, if he intends, usefully to increase the number of his people.

Every plan proposed for this purpose, which does not proceed upon an exact recapitulation of the inhabitants of a country, parish by parish, will prove nothing more than an expedient for walking in the dark. Among such recapitulations or lists I would recommend, as an improvement upon those I have seen in the Marechal de Vauban’s excellent performance above cited, and in the states of his Prussian Majesty, or elsewhere, to have one made out, classing all the inhabitants, not only by the trades they exercise, but by those of their fathers, with a view to distinguish those classes which multiply, from those which only procreate. I should be glad also to see bills of mortality made out for every class, principally to compare the births and deaths of the children in them.

Let me take an example. Suppose then, that I have before me a general recapitulation of all the inhabitants of a country, parish by parish, where they may appear distributed under the respective denominations of their fathers’ employment. I shall immediately find a considerable number produced from the higher classes; from those who live upon an income already provided, and upon branches of industry which produce an easy and ample subsistence. These have no occasion for the assistance of the state in bringing up their children, and you may encourage marriage, or permit celibacy in such classes, in proportion to the use you find for their offspring when they are brought up. When I come to the lower classes, I examine, for example, that of shoemakers, where I find a certain number produced. This number I first compare with the number of shoemakers actually existing, and then with the number of marriages subsisting among them, (for I suppose recapitulations of every kind,) from which I discover the fertility of marriage, and the success of multiplication in this part. When the state of the question is examined, class by class, I can decide where marriage succeeds, and where it does not. I have said, that I imagine it an advantage that every class should support at least its own numbers; and when it does more, I should wish (were it possible) that the higher classes might be recruited from the lower, rather than the lower from the higher; the one seems a mark of prosperity, the other of decay: but I must confess that the first is by far the most difficult to be obtained.

According therefore to circumstances, and in consistence with these principles, I would encourage marriage by taking the children off the hands of their parents. Where marriage succeeds the worst, if it happens to be in a very low class, great encouragement should be given to it; perhaps the whole children should be taken care of. Certain trades may be left with the care of one child, others with two, and so progressively. But of this, more in another place. I beg it may not here be imagined that I propose, that the whole of the lower classes of people should marry and propagate, and that the state should feed all their offspring. My view extends no farther, than to be assured of having such a number of children yearly taken care of as shall answer the multiplication proposed, and that these be proportionally raised from each class, and from each part of the country, and produced from marriages protected by the state, distinguished from the others, which under a free government never can be prevented, but which must always be found exposed to the inconveniences of want and misery. To guard against such evils ought to be another object of public care. Hospitals for
foundlings are an admirable institution; and colonies are an outlet for superfluous inhabitants. But I insensibly enter into a detail which exceeds my plan. To lay down a scheme, you must suppose a particular state to be perfectly known. This lies beyond my reach, and therefore I shall go no farther, but illustrate what I have said, by some observations and reflections which seem analogous to the subject.

I have not here proposed plans of multiplication inconsistent with the spirit of the nations with which I am a little acquainted; nor with the religion professed in Europe, for many reasons, obvious to any rational man. But principally, because, I believe, it will be found, that a sufficient abundance of children are born already; and that we have neither occasion for concubinage, or polygamy, to increase their numbers. But we want a right method of taking care of those we have, in order to produce a multiplication proportioned to the possibility of our providing nourishment and employment. I have therefore proposed, that a statesman, well informed of the situation of his people, the state of every class, the number of marriages found in each, should say, let a particular encouragement be given to so many marriages among the lower classes and let these be distributed in a certain proportion for every parish, city, borough, &c. in the country; let rules be laid down to direct a preference, in case of a competition, between different couples; and let the consequence of this approbation be, to relieve the parents of all children above what they can maintain, as has been said. I propose no new limitations upon marriage, because I am a friend to liberty, and because such limitations would shock the spirit of the times. I therefore would strongly recommend hospitals for foundlings over all the country; and still more strongly the frugal maintenance of children in such hospitals, and their being bred up early to fill and recruit the lowest classes of the people.

From what has been throw out in this chapter, let no one conclude, that such oeconomical principles would lead to regulations much too minute to be consistent with a just spirit of manly freedom and self-government in the common affairs of life. The regulations I have been recommending, regard those only who cannot support their families without the assistance of the state. In vain do we look for self-government or manly freedom among such classes of inhabitants.

Chap. XIII

Continuation of the same Subject, with regard to the Necessity of having exact Lists of Births, Deaths, and Marriages, for every Class of Inhabitants in a modern Society

Mr Derham has furnished some tables, which shew the proportion between marriages and births in England, to be as 1 to 4; that of births to burials as 1 12/100 to 1: from which it appears that multiplication there goes on, though slowly: a mark of youth and vigour. Dr Davenant values this augmentation at 9000 a year. Could matters be kept at that standard, I should prefer it by far to a more rapid multiplication: it amounts to about a million in a century (without entering into accumulations or exact calculations), and the longer youth is preserved so much the better. A rapid multiplication will stop at some period, and this stop, which marks distress, must produce great inconveniences.

These calculations, founded on very precarious suppositions,
shew how necessary it is to have authentic recapitulations:
since, precarious as they are, it is from these and the like,
that Dr Halley, and others, have calculated the value of
annuities, which (at a time when all the states of Europe are
borrowing money at the expense of every man's private industry or
property) ought to be valued at their real worth. Now, in all
these calculations of mortality, it appears that what we have
called the abuse of marriage or mere procreation is included.

If it be true, as I think it is, from what I have seen and
observed, that numbers, especially of children, among the lower
classes, perish from the effects of indigence; either directly by
want of food, or by diseases contracted gradually from the want
of convenient ease; and that others perish for want of care, when
the slightest assistance of a surgeon to let them blood, would be
sufficient to preserve them against the inflammatory distempers
to which they are chiefly exposed: If these things be so, must we
not infer, that calculations formed upon a conclusion drawn from
the births and deaths of mankind in general, cannot possibly be
so exact as if the like were drawn from those of every class of
inhabitants taken separately.

It may here be answered, that among the rich and easy, there
are found diseases which sweep off numbers, in as great a
proportion as other distempers do among the poor: that we see
very large families brought up among the lowest classes, while a
great man has all the pains in the world to preserve one boy from
the wreck of a number of children.

All this I agree may be true; but I should be glad to see in
what proportion it is so, and to be made certain of the fact. I
want to know the diseases of the rich and of the poor; I want to
have as particular details of the births and deaths of every
class, as I can have of those of the cities of Paris, London, or
Breslaw. I want to know from what parents are sprung those
multitudes of poor which I find every where; and most of all to
have such accounts from different countries, where different
manners prevail. For no just conclusion can be drawn from the
comparison of facts, without examining circumstances. The most
barren class in one country, may be the most fruitful in another.
As an example of this, let any one compare the state of marriage
among the footmen of London where most of them are single, and of
Paris where most of them have families.

I find error concealed every where under general
propositions. The children of the poor, says one, thrive better
than those of the rich. If it be so, it ought not to be so in
common reason. But the same person will tell you, I have made my
son a merchant; he will be a rich man Why? Because (A B) was a
merchant, who, from nothing, died worth a hundred thousand
pounds. But if you go through all the letters of the alphabet
following (A B), among those who set out as he did, you will
find, that perhaps every one of them died a bankrupt. Those who
prove successful are remarkable: those who miscarry are never
heard of. It is just so with respect to the question before us.
But to return to our tables, and what are called calculations.

In England, one marriage produces four children at a medium.
If you reckon 6,000,000 of people in that country, and that 1/30
part dies annually, then to keep up the stock it is sufficient
that 200,000 be annually born; add to this the yearly increase of
9000, the total of births will then be 209,000: for if 200,000
die this year, and if 209,000 be born, this must certainly imply
an increase of 9000, provided we suppose the acquisition of
foreigners to be equal to the exportation of the natives. As this
is meant as an illustration only, I need not examine the matter
of fact. The next question is, How many marriages, properly contracted or encouraged as above, will give this increase? For we may know that these subsisting in that kingdom, joined with the effects of extramatriornial conjunctions, is just sufficient to produce it. I imagine that nothing but experiment can give the solution of this question. Mr King supposes every 104th person in England to marry yearly, that is, 57,682 persons, or 28,841 couples. If this number of marriages be supposed to subsist with fertility for seven years, producing a child every year, the number of 200,000 births would be procured; but I apprehend that marriages, rightly contracted, subsist much longer in general than seven years, even with fertility, though not in proportion to a child every year: consequently the number of marriages constantly subsisting with fertility in England, where it is supposed that 28,841 are yearly contracted, must be much greater than seven times that number, or than 201,887. If we suppose the whole of the 209,000 births to be produced by marriages, at three marriages to every child annually produced, then the number of marriages subsisting will be 627,000. From these speculations (for I do not pretend to call them calculations) I conclude, that the more fruitful marriages are rendered, (not with regard to procreation, merely, but to multiplication, which I have above distinguished,) the fewer become necessary; and the fewer unnecessary marriages are contracted, the better for the state, and the less misery for those who contract them. I shall here stop, and leave to the reader to draw his conclusions, putting him in mind of the wide difference that is always found between theory and practice.

From this reasoning I infer, that no exact judgement can be formed, as to the numbers in any society, from the single datum of the annual number of deaths among them; and although the just proportion between numbers and deaths may exactly be determined in one particular place, yet that proportion will not serve as a general standard, and being taken for granted may lead to error. Here are the reasons for my opinion:

Were nobody to marry but such as could maintain their children, the bills of births and burials would, I apprehend, diminish, and yet numbers might remain as before; and were every body to marry who could procreate, they certainly would increase, but still numbers would never exceed the proportion of Subsistence. Could we but see bills of births and deaths for the city of Rome, while in all its glory or indeed for the sugar-colonies in America, where slaves are imported, adding the number of those imported to that of births, and supposing the colony neither upon the growing or the declining hand, then the deaths and births would be equal; but the proportion of them to all in the colony, I apprehend, would be far less than in any state in Europe, where slavery does not prevail.

It may be alleged that, were all to marry, the consequence would be a great multiplication. I say not; or if it were, what sort of multiplication would it be? A multitude of children who never could come to manhood; or who would starve their parents, and increase misery beyond expression. All therefore that can be learned from bills of mortality, &c. is, that if the births exceed the deaths, and that all remain in the country, numbers are increasing; that if the deaths exceed the births, numbers are diminishing; but, while they stand at par, no conclusion can be drawn as to numbers in general: these will be in a less proportion as abusive procreation goes forward: and, vice versa, they will be in a greater.

There still hangs a cloud upon this subject: let me therefore
reason upon an example. Suppose the inhabitants of a country to stand at 6,000,000; one thirtieth to die every year, and as many to be born, that is, the births and burials to stand at 200,000; that every three marriages subsisting produce one child every year, that is 600,000 marriages; let the quantity of food be supposed the same, without a possibility of being augmented. Would not the consequence be, that numbers could not increase? Now let me suppose marriages carried to 1,000,000. I say the effect would be, either that they would become in general less fruitful, or if they suffered no diminution in this particular, that the bills of births and deaths would rise to 333,333; that is to say, they would be to the number of inhabitants as 1 to 18, instead of being as 1 to 30. Now this increase of mortality proceeding from want of food, either the old would starve the young, or the young would starve the old; or a third case, more probable than either, would happen; those who could purchase subsistence, would starve those who could not. What would be the consequences in all these three suppositions? In the first, the number of 6,000,000 would be found to diminish; because the proportion of large consumers would rise, and mortality would increase among the children. In the second, the standard number would augment, because the proportion of small consumers would rise, and mortality would increase among the parents. In the third, misery and distress would lay all the lower classes waste. It is computed that one half of mankind die before the age of puberty in countries where numbers do not augment; from this I conclude, that too many are born. If methods therefore are fallen upon to render certain diseases less mortal to children, all the good that will be got by it, in general, will be to render old people of the lower classes more wretched; for if the first are brought to live, the last must die.

From these speculations I cannot help wishing to see bills of mortality made out for different classes, as well as for different ages. Were this executed, it would be an easy matter to perceive, whether the mortality among children proceeds from diseases to which infancy is necessarily exposed, or from abusive procreation. I am pretty much convinced, before I see the experiment, that it proceeds from the latter; but should experience prove it, the principles I have laid down would acquire an additional force. In the mean time, I must conclude, that it is not for want of marrying that a people does not increase, but from the want of subsistence; and it is miserable and abusive procreation which starves so many, and is the fountain of so much wretchedness.

Upon the whole, I may say, that were it possible to get a view of the general state of births and burials in every class of the inhabitants of a country, marriage might surely be put upon a better footing than ever it has been, for providing every year a determinate number of good and wholesome recruits towards supporting national multiplication. This is walking in the light, and is a means of procuring whatever augmentation of hands you wish for. What difficulties may be found in the execution, nothing but experience can shew. and this, to a judicious eye, will point out the remedy. This, in my opinion, will be far better than a general naturalization, which I take to be a leap in the dark. For, however easy it may be to naturalize men, I believe nothing is so difficult as to naturalize customs and foreign habits; and the greatest blessing any nation can enjoy, is an uniformity of opinion upon every point which concerns public affairs and the administration of them.

When God blesses a people, he makes them unanimous, and
bestows upon them a governor who loves them, and who is beloved, honoured, and respected by them; this, and this only, can create unanimity.

Let this suffice at present, as to the distribution, employment, and increase of a people. Upon the proper employment of the free hands, the prosperity of every state must depend: consequently the principal care of a statesman should be, to keep all employed, and for this purpose he must acquire an exact knowledge of the state of every denomination, in order to prevent any one from rising above, or sinking below that standard which is best proportioned to the demand made for their particular industry. As the bad consequences resulting from the loss of this exact balance are not immediate, a moderate attention, with the help of the proper recapitulations, will be sufficient to direct him.

This and the two preceding chapters have in a manner wholly treated of the employment of the free hands: I must now consider the effects of an overcharge of those employed in agriculture. Here we shall still discover inconveniences, resulting from the want of that just proportion in the distribution of classes, which gives health and vigour to a state; and we shall see how it may happen, that even an overcharge of inhabitants in general may become a political disease; as an abundance of blood, however rich and good, may affect the health of the human body.

Chap. XIV
Of the Abuse of Agriculture and Population

I have taken above of two performances, wherein the authors with equal ability, have treated of the numbers of manors, with notice a subject which has a very close connection with political oeconomy.

Although (as I have said) I do not pretend to decide between them as to the point in dispute, I find that in this chapter I shall be naturally led into a chain of reasoning very unfavourable to that of Mr Wallace, which is a thing I should have dispensed with, did not the merit of his performance in the eyes of the learned world appear sufficient to draw my attention.

Agriculture is, without all doubt, the foundation of multiplication, which must ever be in proportion to it; that is, to the earth's productions, as has been said. But it does not follow, that in proportion to multiplication those produced must of course become useful to one another, and useful to the society in general. Now I consider multiplication as no otherwise useful to a state, than so far as the additional number becomes so to those who are already existing, whom I consider as the body-politic of the society. When it therefore happens, that an additional number produced do no more than feed themselves, then I perceive no advantage gained to the society by their production. If, without rendering any equivalent service, they are fed by others, there is a loss.

Agriculture may be said to be carried to its utmost extent, when the earth is so laboured as to produce the greatest quantity of fruits possible for the use of man; and in judging of the improvement of two spots of ground of the same extent, that may be said to be most improved which produces the greatest quantity of food: but as to population, the question does not stop here; for let the quantity be equal on both, yet if the inhabitants of the one be more frugal livers than those of the other, this
circumstance alone will make an inequality. If agriculture therefore be considered with respect to population only, we must consider that country as the best peopled, where productions are the most abundant, and where the inhabitants are the most sober. Thus much with regard to the extent of agriculture and population: we come now to consider the inconveniences which may result to a society from an over-stretch, or from what I call an abuse of either the one or the other.

I call every thing an abuse in society which implies a contradiction to the spirit of it, or which draws along with it an inconvenience to certain classes, which is not compensated by the general welfare.

The political oeconomy of government is brought to perfection, when every class in general, and every individual in particular, is made to be aiding and assisting to the community, in proportion to the assistance he receives from it. This conveys my idea of a free and perfect society, which is, a general tacit contract, from which reciprocal and proportional services result universally between all those who compose it.

Whenever therefore any one is found, upon whom nobody depends, and who depends upon every one, as is the case with him who is willing to work for his bread, but who can find no employment, there is a breach of the contract, and an abuse. For the same reason, if we can suppose any person entirely taken up in feeding himself, depending upon no one, and having nobody depending on him, we lose the idea of society, because there are no reciprocal obligations between such a person and the other members of the society.

Those who are for employing the whole of a people in agriculture may answer, that all their time cannot be employed in this occupation, and that in the intervals they may apply themselves to supply reciprocal wants.

I very readily agree, that any person, who would calculate his labour in agriculture, purely for his own subsistence, would find abundance of idle hours. But the question is, whether in good oeconomy such a person would not be better employed in providing nourishment for others, than in prodding for any other want. When he provides food, he surely provides for a want; and experience shews, that it is better for a man to apply close to one trade, than to turn himself to several.

Hence I conclude, that the best way of binding a free society together is by multiplying reciprocal obligations, and creating a general dependence between all its members. This cannot be better effected, than by appropriating a certain number of inhabitants, for the production of the quantity of food required for all, and by distributing the remainder into proper classes for supplying every other want. I say farther, that this distribution is not only the most rational, but that mankind fall naturally into it; and misery attends and has ever attended those who have been found without a particular employment.

It must not be concluded from this reasoning that abuse is always implied when we find any of the classes of the free hands of a state casually employed in agriculture.

There is such a variety of circumstances in every country, that without a peculiar talent of laying principles together, so as to answer every combination, the most perfect theory which can be proposed must appear defective.

In countries ill-improved, where industry begins only to take root, we are not to conclude, that good policy requires a sudden and immediate separation between the dwellings of the husbandmen and free hands. Sudden revolutions are constantly hurtful, and a
good statesman ought to lay down his plan for arriving at perfection by gradual steps.

If he find, as is the case of rude and uncivilized societies, that many are occupied, partly, in providing subsistence for their own family, partly, in other useful pursuits, he may by degrees attach as many as he can to agriculture alone. The most wealthy are the most proper to carry this branch to any degree of perfection. The landed men ought to be encouraged by every means to apply to the study of farming. This employment has been considered as honourable in all ages of the world, and very well suits the rank, the interest, and the amusement of gentlemen.

The next step is to introduce manufactures into the country, and to provide a ready market abroad for every superfluous part of them. The allurement of gain will soon engage every one to pursue that branch of industry which succeeds best in his hands. By these means many will follow manufactures and abandon agriculture; others will prosecute their manufactures in the country, and avail themselves, at the same time, of small portions of land, proper for gardens, grass for cows, and even for producing certain kinds of fruit necessary for their own maintenance.

This I do not consider as a species of farming. It is more properly, in a political light, a sort of village-life; the village here appears dispersed only over a large extent; and I call it a village-life, because here the occupation of the inhabitants is principally directed towards the prosecution of their trades: agriculture is but a subaltern consideration, and will be carried on so far only, as it occasions no great avocation from the main object. It will however, have the effect to parcel out a small part of the lands into small possessions: a system admirably calculated for the improvement of a barren soil, and advantageous to industry is not thereby checked. This is population, when the spirit of not the case when the possessors of small lots apply totally to agriculture, and content themselves with a bare subsistence from it, without industry, or forming any plan which prosecuting any other branch of may enable themselves or their children to emerge from so circumscribed a sphere of life: from this alone proceeds, in most countries, the inconvenience of a minute subdivision of land-property.

We shall presently see, by various examples, the truth of this proposition; and, from what observations I have been able to make, it appears, that a great inconvenience flows from it; the property of the lands, and not the bare possession of them, is vested in the lower classes. While they remain as tenants only, the interest of the proprietor, on one hand, will lead him to incorporate these small possessions into larger farms, the moment the possessors are no longer able to pay a rent above the value of the grounds when let in farms; and the interest of these tenants, on the other hand, will frequently lead them to abandon such small possessions, when the prosecution of their trades, which ought to be their principal occupation, demands a change of habitation. Thus the interest of agriculture will go hand in hand with that of industry, and classes will separate their habitations according as their respective interests require.

It is certainly the interest of every landlord whose lands are ill improved, to multiply the habitations on them; provided the possessors can be made to live by some other branch of industry than bare agriculture: and in many cases, it may be his advantage to incorporate such small possessions into farms, as soon as they have been sufficiently improved by the possessors; whose habitations may then be removed to other barren lands. By
following this plan he will improve his estate; he will multiply the useful inhabitants; and he will, at the same time, share the profits of their industry beyond the value which any farmer can pay for the lands which he gives them to possess.

By these means has the woollen manufacture in England, and the linen in Ireland and Scotland been greatly augmented. But as the improvement of land goes on, this oeconomy will decline: towns will swell in consequence of the principles we are now going to deduce; the lands will become more thinly inhabited; and farms will by degrees grow more extensive. I appeal to experience for the justness of this observation.

Hence it plainly appears, that, in every light this matter can be represented, we still find it impossible usefully to employ in agriculture above a certain part of a people. The next question is, how to determine the just proportion. For this purpose we must have recourse to facts, not to theory. We have, in a former chapter, examined the state of this question with regard to one country. I shall here only add, that, in proportion to the culture of the soil, and to the number of crops it is made to produce, a greater or less number will be required; and in proportion to the surplus of food above what is necessary to maintain the labourers, will a number of free hands be provided for. If therefore a species of agriculture can be found established, which produces little or no surplus, there little or no industry can be exercised; few wants can be supplied: this will produce a wonderful simplicity of manners, will ruin the system of modern policy, and produce what I must call an abuse.

Let me look for some examples of this, in order to set the question in a clearer light.

In the wine-provinces of France, we find the lands which lie round the villages divided into very small lots, and there cultivation is carried to a very extraordinary height. These lands belong, in property, (not by lease,) to the peasants who cultivate the vines. No frugality can be greater than in the consumption of this produce, and the smallest weed which comes up among the grain, is turned to account, for the food of animals. The produce of such lands, I may say, is entirely consumed by the proprietor and his family, who are all employed in the cultivation, and there is no superfluous quantity here produced for the maintenance of others. Does not this resemble the distribution of lands made by the Romans in favour of 5000 Sabine families, where each received two plethra of ground. (See Numbers of Mankind, p. 117) Now let me examine the political state of agriculture, and of other labour performed by my French vine-dresser.

By the supposition we imply, that the bit of land is sufficient for maintaining the man and his family, and nothing more; he has no grain to sell, no food can by him be supplied to any other person whatever; but the state of other lands capable of yielding a surplus, such as the vineyard, produces a demand for his labour. This labour, considered with respect to the vine-dresser, is a fund for providing all his wants in manufactures, salt, &c. and what is over must be considered as his profits, out of which he pays the royal impositions. The same labour, considered with regard to the proprietor of the vineyard, enters into that necessary deduction out of the fruits, which, when deducted, leaves the remainder, which we call surplus, or what answers to the land-rent. This belongs to the proprietor, and becomes a fund for supplying all his wants.

Here we have an idea of society. The vine-dresser depends upon the proprietor for the price of his labour, the proprietor
upon the vinedresser for his surplus. But did we suppose all the kingdom parcelled out, and laboured, as the spot which lies round the village, what would become of the vine-dresser with regard to all his other wants; there would be no vines to dress, no surplus nourishment any where to be found, consequently no employment, not even life, for those who had no land. From this example we discover the difference between agriculture exercised as a trade and as a direct means of subsisting; a distinction to be attended to, as it will very frequently occur in the prosecution of our subject. We have the two species in the vine-dresser: he labours the vineyard as a trade, and his spot of ground for subsistence. We may farther conclude, that, as to the last part, he is useful to himself only; but, as to the first, he is useful to the society, and becomes a member of it: consequently, were it not for his trade, the state would lose nothing, though the vine-dresser and his land were both swallowed up by an earthquake. The food and the consumers would both disappear together, without the least political harm to any body: consequently, such a species of agriculture is no benefit to a state; and consequently, neither is that species of multiplication, implied by such a distribution of property, any benefit. Thus an over-extension of agriculture and subdivision of lands become an abuse, and so, consequently, does an over-multiplication of farmers.

Here I am obliged to conclude, that those passages of Roman authors which mention the frugality of that people, and the small extent of their possessions, cannot be rightly understood, without the knowledge of many circumstances relative to the manners of those times. For if you understand such a distribution of lands to have extended over all the Roman territory, the number of the citizens would have far exceeded what they appear to have been by the Census, and even surpass all belief. But farther, I may be allowed to ask, whether or no it be supposed that these frugal Romans laboured this small portion of lands with their own hands and consumed the produce of it? If I am answered in the affirmative (which is necessary to prove the advantages of agriculture's being exercised by all the classes of a people), then I ask, from whence were the inhabitants of Rome, and other cities, subsisted? who fed the armies when in the field? If these were fed by foreign grain imported or plundered from their neighbours, where was the advantage of this sub-division of lands, and of this extensive agriculture, which could not feed the inhabitants of the state? If it be said, that notwithstanding this frugal distribution of property among the citizens, there were still found surplus enough to supply both Rome and the armies, will it not then follow, that there was no necessity for employing all the people in agriculture, since the labour of a part might have sufficed?

That number of husbandmen, therefore, is the best, which can provide food for all the state; and that number of inhabitants is the best, which is compatible with the full employment of every one of them.

Idle mouths are useful to themselves only, not to the state; consequently, are not an object of the care of the state, any farther than to provide employment for them; and their welfare (while they remain useless to others) is, in a free country, purely a matter of private concern. Let me take another example for the farther illustration of this matter.

Those who travel into the southern provinces of Spain, find large tracts of land quite uncultivated, producing only a scanty pasture for herds of the lesser cattle. Here and there are found
interspersed some spots of watered lands, which, from the profusion of every gift which nature can bestow, strike a northern traveller with an idea of paradise. In such places villages are found, and numbers of inhabitants. It must be allowed that industry and labour do not here go forward as in other countries; but to supply this want charity steps in. Charity in Spain (in proportion to its extent) is as powerful a principle towards multiplication as industry and labour. Whatever gives food gives numbers: but charity cannot extend beyond superfluity, and this must ever be in proportion to industry. These watered lands are well laboured and improved. The value of them, in one sense, is in proportion to their fertility, and the surplus of the labourers should naturally be given for an equivalent in money or work: But this equivalent cannot be found; because the poor of the village have neither the one or the other to give; and the charitable farmer considers it to be his duty, to bestow on them gratis whatever he can spare. If the Spaniards therefore were not the most charitable people upon earth, it is very plain that the labouring of those watered spots would diminish until it came upon a level with the demand of such people of the village only, as could purchase the farmer's surplus. But here it is otherwise; labour goes on mechanically; the farmer never complains of the burden of giving, charity; and the poor live in ease in proportion to plenty of the year. Here then is a third principle of multiplication. The first is slavery, or a violent method of making mankind labour; the second is industry, which is a rational excitement to it; the third is charity, which resembles the manna in the desert, the gift of God upon a very extraordinary occasion, and when nothing else could have preserved the lives of his people. Whether, in all cases, this principle of christianity advances the prosperity of a modern society (when complied with from obedience to precept, without consulting reason as to the circumstances of times and situations), is a question which lies out of my road to examine. The action, considered in the intention of the agent, must in every case appear highly beautiful; and we plainly see how far it contributes to multiplication, though we do not so plainly perceive how such a kind of multiplication can be advantageous to society.

Now if we examine the state of agriculture in this Spanish village, considered as one large family, we find, upon the whole, no more surplus of fruits than upon the French vine-dresser's portion of land; consequently, if all Spain was laboured and inhabited like this village and its small garden, as it is called, it would be the most populous country in the world, the most simple in the manner of living; but it never could communicate the idea of a vigorous or a flourishing state. It is the employment alone of the inhabitants which can impress this character.

Now in this last example, what a number of free hands do we find! Are not all the poor of this class? Would it not be better if all these by their labour could purchase their subsistence, than be obliged to receive it in the precarious manner they do? Can one suppose all these people industrious, without implying what I call superfluity of labour? and does not superfluity of labour imply luxury, according to my definition of it? Where would be the harm if the Spanish farmer, who gives a third of his crop in charity, should in return receive some changes of raiment, some convenient furniture for his house, some embellishment to his habitation: these things would cost him nothing; he would receive them in exchange for what he now gives
from a principle of charity, and those who have a precarious, would have a certain livelihood. Let us travel a little farther in search of the abuse of population.

In Germany, we find many small towns, formed into corporations, which enjoy certain privileges. The freedom of such towns is not easily purchased; and one, upon considering outward circumstances, must be not a little surprized to hear of the sums refused, when offered, to obtain it. Round these towns there is a small territory divided into very small portions, and not able to maintain the inhabitants: these lands therefore are infinitely over-stocked with husbandmen; for every proprietor, less or more, concerns himself with the cultivation. Here, one who should aspire to extend his possession, would, according to the sentiment of Manius Curicius Dentatus, certainly be considered as a dangerous citizen, and a hurtful member of the society. These lots are divided among the children of the proprietors, who are free of the town, by which means they are constantly splitting by multiplication, and consolidating by death, and by marriage: these nearly balance one another, and property remains divided as before. A stranger is at a loss to find out the reason, why the liberty of so poor a little town should be so valuable. Here it is; first there are certain advantages enjoyed in common, such as the privilege of pasture on the town-lands, and others of a like nature; but I find that the charges which the burgesses are obliged to pay, may more than compensate them. The principal reason appears to be, that no one who has not the liberty of a town, can settle in a way of industry so as to marry and have a family: because without this, his labour can be directed towards furnishing the wants of peasants only, who live in villages; these are few, and little ingenuity is required for it. In towns there is found a greater diversity of wants, and the people there have found out mechanically, that if strangers were allowed to step in and supply them, their own children would starve; therefore the heads of the corporation, who have an interest to keep up the price of work, have also an interest to hold the liberty of their town at a high value. This appears to me a pretty just representation of the present state of some towns I have seen, relative to the present object of inquiry.

But as industry becomes extended, and trade and manufactures are established, this political oeconomy must disappear.

Such a change, however, will not probably happen without the interposition of the sovereign, and a new plan of administration; what else can give a turn to this spirit of idleness, or rather, as I may call it, of this trifling industry? Agriculture never can be a proper occupation for those who live in towns: this therefore is an abuse of it, or rather indeed an abuse of employment.

Ease and plenty never can enter a little town, but by the means of wealth; wealth never can come in but by the produce of labour going out; and when people labour purely for their own subsistence, they make the little money only they have to circulate, but can acquire nothing new and those who with difficulty can maintain themselves, never can hope to increase their numbers.

If in spite of the little industry set on foot in such towns, the generative faculty shall work its effect and increase numbers, this will make the poor parents still divide, and misery will ensue; this may excite compassion, and this again will open the chests of those who have a charitable disposition: hospitals are founded for the relief of the poor, they are quickly filled, and as many necessitous remain as ever. The reason is plain; the
hospital applies a palliative for the abuse, but offers no cure. A tree is no sooner discharged of its branches than it pushes new ones. It has been said, that numbers are in proportion to food; consequently, poor are in proportion to charity. Let the King give his revenue in charity, he will soon find poor enough to consume it. Let a rich man spend 100,000 l. a year upon a table, he will find guests (the best in the kingdom) for every cover. These things, in my way of considering them, are all analogous, and flow from the same principle. And the misery found in these little German towns, is another modification of the abuse of population. These examples shew the inconveniences and abuses which result from a misapplication of agriculture, which produces a population more burthensome than beneficial to a modern state.

If the simplicity of the ancients be worthy of imitation, or if it appear preferable to the present system, which it is not my business to decide, then either slavery must be introduced to make those subsist who do not labour, or they must be fed upon charity. Labour and industry can never, I think, be recommended on one hand, and the effects of them proscribed on the other. If a great body of warlike men (as was the case in Sparta) be considered as essential to the well-being of the state; if all trade and all superfluity be forbid amongst them, and no employment but military exercises allowed; if all these warriors be fed at public tables, must you not either have a set of Helotes to plow the ground for them, or a parcel of charitable Spanish farmers to feed them gratis.

Thus much I have thought might be of use to say to illustrate the principles I have laid down. I find it very unfavourable to the reasoning which runs through the whole of the performance which I mentioned above, and which I have had in my eye. A more particular examination of it might be useful, and even amusing; but it would engage me in too long a disposition for the nature of this work. I cannot however help, in this place, adding one observation more, in consequence of our principles, which seems contrary to the strain of our ingenious author's reasoning. I say seems, because all difference almost of opinion upon such subjects proceeds from the defect of language in clearly transmitting our ideas, when complex or abstract.

The effect of diseases which sweep off numbers of people does not essentially diminish population, except when they come suddenly or irregularly, any more than it would necessarily dispeople the world if all mankind were to be swept off the stage at the age of forty-six years. I apprehend that in man, as in every other animal, the generative faculty is more than able to repair all losses occasioned by regular diseases; and I have shewn, I think, more than once, that multiplication never can stop but for want of food. As long then as the labour of man can continue annually to produce the same quantity of food as at present, and that motives are found to make him labour, the same numbers may be fed, and the generative faculty, which from one pair has produced so many millions, would certainly do more than keep up the stock, although no person were to pass the age above mentioned. Here is the proof; were the life of man confined to forty-six years, the state of mortality would be increased in the proportion which those who die above forty-six bear to those who die under this age. This proportion is, I believe, as 1 to 10; consequently, mortality would increase 1/10, consequently, numbers would be kept up by 1/10 upon births; and surely the generative faculty of man far exceeds this proportion, when the other requisites for propagation, to wit, food, &c. are to be found, as by the supposition.
Chap. XV

Application of the above Principles to the State of Population in Great Britain

A letter from Dr Brakenridge, F.R.S. addressed to George Lewis Scott, Esq; which I found in the Danish Mercury for March 1758, furnishes me with a very good opportunity of applying the principles we have been laying down to the state of population in Great-Britain. I shall therefore, according to my plan, pass in review that gentleman's opinion, without entering upon any refutation of it. I shall extract the propositions he lays down, examine the conclusions he draws from them, and then shew wherein they differ from those which result from the theory established in this inquiry.

The author's calculations and suppositions as to matters of fact shall be taken for granted, as I believe the first are as good as any that can be made, upon a subject where all the data required for solving the problem are quite a piece of guess-work.

I must follow the Mercury, not having the original.

Prop. I. After a very close examination, says our author, I find, that our islands gain, as to population, absolutely no more than what is requisite for repairing their losses, and that, in England itself, numbers would diminish, were they not recruited from Ireland and Scotland.

Prop. II. Men, able to carry arms, that is from 18 to 56 years, make, according to Dr Halley, the fourth part of a people; and when a people increase in numbers, every denomination, as to age, increases in this proportion: consequently in England, where the number of inhabitants does not exceed six millions, if the annual augmentation upon the whole do not exceed 18,000, as I am pretty sure it does not, the yearly augmentation of those fit to carry arms will be no more than 4,500.

Prop. III. In England, burials are to births as 100 is to 113. I suppose, that in Scotland and Ireland, they may be as 100 is to 124. And as there may be in these two last kingdoms about two millions and a half of inhabitants, the whole augmentation may be stated at 15,000; and consequently that of such as are fit to carry arms, at 3,750. Add this number to those annually produced in England, and the sum total of the whole augmentation in the British isles will be about 8,250.

Prop. IV. The strangers, who arrive in England, in order to settle, are supposed to compensate those who leave the country with the same intent.

Prop. V. It is out of this number of 8,250, that all our losses are to be deduced. If the colonies, wars, and navigation, carry off from us annually 8,000 men, the British isles cannot augment in people: if we lose more, numbers must diminish.

Prop. VI. By calculations, such as they are, our author finds, that, upon an average of 66 years, from 1690 to 1756, this number of 8,000 has been annually lost, that is, they have died abroad in the colonies, in war, or on the account of navigation.

Prop. VII. That, since the inhabitants of Britain and Ireland are about 8,000,000, and that the augmentation is annually about 8,000, we may conclude in general for all Europe, that, for every million of habitants, there is an annual augmentation of 1,000; consequently, every thousand men slain in war must destroy all the augmentation of a million of inhabitants during a year. Consequently France, which contains 14 millions, according to Sir William Petty, having lost above 14,000 men a-year, during the
Prop. VIII. That the progress of trade and navigation augmenting the loss of people by sea, must consequently have diminished population over all Europe.

Prop. IX. The exportation of our corn proves what the above propositions have demonstrated. For supposing the progress of agriculture to compensate the additional quantity distilled of late years, there is still one-sixth of the crop exported, which proves that our numbers are small, and that they do not augment.

From these propositions our author concludes, that what stops multiplication in the British isles is, first, That living in celibacy is become a-la-mode: secondly, That wars have been carried on beyond the nation's force: thirdly, That the use of spirituous liquors destroys great numbers of inhabitants.

I shall now shortly apply the principles I have been laying down, in order to resolve every phenomenon here described, as to the population of Great Britain. These phenomena I shall willingly take for granted, as it is of no consequence to my reasoning, whether they be exact or not: it is enough that they may be so; and the question here is only to account for them.

England, says he, would diminish in numbers, were it not recruited from Scotland and Ireland. This, I say, is a contingent, not a certain consequence: for did those grown-up adventurers cease to come in, the inhabitants of England themselves would undoubtedly multiply, provided an additional number of breeders could be found, able to bring up their children. Now the importation of grown men into a country so far resembles the importation of slaves into our colonies, that the one and the other diminishes the price of labour, and thereby prevents marriage among certain classes of the natives, whose profits are not sufficient for bringing up a family: and when any such do marry notwithstanding, they do not multiply, as has been said. Now were the Scots and Irish to come no more into England, the price of labour would rise; those who now cannot bring up children, might then be enabled to do it, and this would make the English multiply themselves; that is, it would augment the number of their own breeders. On the other hand, did the price of labour continue too low to prove a sufficient encouragement for an additional number of English breeders, the contingent consequence would take place; that is, numbers would diminish, according to our author's supposition, and the exportation of grain would increase, in proportion to that diminution; and did foreign demand for grain diminish also, then agriculture would suffer, and every thing would decline.

The representation he gives of the state of population in these countries, is one modification of what I have called a moral incapacity of a people's increasing in numbers. It is just so in Africa, where the inhabitants are sold; just so in Switzerland, and in many mountainous countries, where inhabitants desert in order to seek their fortunes elsewhere. The national stock remains at an equal standard, and the augmentation upon births above burials is constantly in proportion to the exportation of inhabitants. Let this proportion rise ever so high, an increase of national population is noways essentially to be implied from this phenomenon alone, but must proceed from other causes.

I can find nothing advanced by our author to prove, or even to induce one to believe, that had the lives of those eight thousands been yearly preserved from extraordinary dangers, numbers would have augmented. England enjoyed in a manner 26 years peace after the treaty of Utrecht. For many years before
this treaty, a very destructive war had been carried on. Had the bills of births been produced from 1701 to 1713, had they been compared with those from this last period to 1739, when the Spanish war began, had we seen a gradual augmentation from year to year during those last 26 years, such as might be expected from the preservation of a considerable number at least of the 8,250 able healthy men, just in the period of life fit for propagation, one might be tempted to conclude, that the preceding war had done hurt to population, by interrupting the propagation of the species. But if, by comparing the bills of births for a considerable number of years, in war and in peace, one can discover no sensible difference, it is very natural to conclude, either that those wars did not destroy many breeders, or that others must have slipt in directly, and bred in the place of those who had been killed. What otherwise can be the reason why the number which our author supposes to have been destroyed abroad, should so exactly compensate the annual augmentation, but only that those nations are stocked to the full proportion of their subsistence: and what is the reason why, after a destructive war, which, by the suddenness of the revolution, sweeps off numbers of the grown men, and diminishes the original stock, numbers should in a few years get up to the former standard, and then stop a-new?

From our author's representation of the bills of births and deaths, I should be apt to suspect, in consequence of my principles, that upon a proper examination it will be found, that, in those years of war, the proportion of births to deaths had been higher than in years of peace, because more had died abroad. And, had the slaughter of the inhabitants gone gradually on, increasing every year beyond the 8,250, I am of opinion, that the proportion of births might very possibly have kept pace with it. On the contrary, during the years of peace, the proportion would have diminished, and had nobody died out of the country at all, the births and deaths would have become exactly equal.

From what I have here said, the reader may perceive, that it is not without reason that I have treated in the general, the principles relating to my subject, and that I avoid as much as possible to reason from facts alleged as to the state of particular countries. Those our author builds upon may be true, and may be false: the proportion of births and deaths in one place is no rule for another we know nothing exactly about the state of this question in the British isles; and it may even daily vary, from a thousand circumstances. War may destroy population as well as agriculture, and it may not, according to circumstances. When the calamity falls upon the breeders, and when these are supposed the only people in the country in a capacity of bringing up their children, births will soon diminish. When it destroys the indigent, who cannot bring up their children, or who do not marry, births will remain the same. The killing the wethers of a flock of sheep does not diminish the brood of lambs next year; the killing of old pigeons makes a pigeon-house thrive. When the calamity falls upon the farmers, who make our lands produce, agriculture is hurt, no doubt: does it fall upon the superfluities of cities, and other classes of the free hands, it may diminish manufacturers, but agriculture will go on, while there is a demand for its produce; and if a diminution of consumption at home be a consequence of the war, the augmentation upon exportation will more than compensate it. I do not find that war diminishes the demand for subsistence.

The long wars in Flanders in the beginning of this century interrupted agriculture now and then, but did not destroy it.
That in the Palatinate in the end of the last ruined the country so, that it has hardly as yet recovered it. War has different effects, according to circumstances.

OBJ. The population of the British isles is not stopt for want of food, because one-sixth part of the crop is annually exported. I answer, that it is still stopt for want of food, for the exportation marks only that the home demand is satisfied; but this does not prove that the inhabitants are full fed, although they can buy no more at the exportation price. Those who cannot buy, are exactly those who I say die for want of subsistence; could they buy, they would live and multiply, and no grain perhaps would be exported. This is a plain consequence of my reasoning; and my principal point in view, throughout this whole book, is to find out a method for enabling the indigent to buy up this very quantity which is at present exported. By this application of our principles, I have no occasion to call in question our author's facts. It is no matter what be the state of the case: if the principles I lay down be just, they must resolve every phenomenon.

Chap. XVI

Why are some Countries found very populous in respect of others, equally well calculated for Improvement?

This question comes immediately under the influence of the principles already laid down, and must be resolved in consequence of them. It is with a view to make the application of these, that I have proposed it; and, in the examination, we shall prove their justness, or discover their defects.

It may be answered in general, that every such difference must proceed from what I call the spirit of the government and of the people, which will not only decide as to numbers, but as to many other things. I must however observe, that the question in itself is of little importance, if nothing but numbers be considered; for of what consequence is it to know how many people are in a country, when the employment of them does not enter into the inquiry? Besides, it is by examining the employment only of a people, that I can form any judgment as to this particular. But as the numbers of mankind have been thought a point worthy of examination, I have chosen this title for a chapter, which might perhaps have more properly stood under another.

While slavery prevailed, I see no reason to conclude any thing against the populousness of the world, as I have said already: when slavery was abolished, and before industry took place, if my principles be true, that period, I think, should mark the time of the thinnest population in Europe; for I believe it will be found, that there never was an example of a country, however fertile by nature, where every one was absolutely free; where there was little or no industry; and where, at the same time, there were many inhabitants, not beggars, nor living upon charity. I have mentioned this so often, that I am afraid of tiring my reader with useless repetitions. I have brought it in here, to give him only an opportunity of applying this principle to the solution of the question before us.

I shall begin my inquiry by asking what is understood by a country's being populous; for this term presents different ideas, if circumstances are not attended to. I have heard it said, that France was a desert, and that there was nobody found in it but in towns; while in England one cannot travel half a mile without
finding a farm, perhaps two together; and in looking round, one sees the whole country divided into small possessions. The difference here found, I apprehend, decides nothing in favour of, or against the real populousness of the one or the other, but proceeds entirely from circumstances relative to agriculture, and to the distribution of free hands. These circumstances will be better understood from the examination of facts, than from the best theory in the world. Let one consider the state of agriculture in Picardy and in Beauce, and then compare it with the practice in many provinces in England, and the contrast will appear striking. Were there more forest in England, to supply the inhabitants with fuel, I imagine many inclosures, useful at first for improving the grounds, would be taken away, and the country laid more open; were wolves less common in France, there would be found more scattered farms. Cattle there must be shut up in the night, and cannot be left in the fields; this is a great discouragement to inclosing. Where there are no inclosures, there are few advantages to be found from establishing the farmhouse exactly upon the spot of ground to be laboured; and then the advantages which result to certain classes of inhabitants, from being gathered together, the farmers with the tradesmen, are found to preponderate. Thus the French farmers are gathered into villages, and the English remain upon their fields. But farther; in Picardy and Beauce agriculture has been long established, and, I imagine, that, at the time when lands were first broken up, or rather improved, their habitations must have been closer together.

This drawing together of inhabitants must leave many ruinous possessions, and this, by-the-bye, is one reason why people cry out upon the desolation of France, because ruinous houses (which may oftentimes be a mark of improvement, not of desertion) are found in different places in the country. Paris has grown considerably in bulk, and from this it naturally happens, that the country round is purged of idle mouths. If this makes labour dear in the country, it is the city alone which suffers by it; the country must certainly be the gainers. So much for the two species of population in two of the best inhabited countries of Europe. I now come to another in one of the worst.

In some countries you find every farm-house surrounded with small huts, possessed by numbers of people, supposed to be useful to the farmer. These in Scotland are called cottars (cottagers), because they live in cottages. If you consider them in a political light, they will appear to be inhabitants appropriated for agriculture. In one sense they are so, if by that you understand the gathering in of the fruits; in another they are not, if by agriculture you understand the turning up the surface. I bring in this example, and shall enlarge a little upon it, because I imagine it to be, less or more, the picture of Europe 400 years ago.

The Scotch farmer must have hands to gather in a scanty produce, spread over a large extent of ground. He has six cottars, I shall suppose; but these cottars must have wives, and these wives will have children, and all must be fed before the master's rent can be paid. It never comes into the cottar's head to suppose that his children can gain money by their industry, the farmer never supposes that it is possible for him to pay his rent without the assistance of his cottars to tend his cattle, and gather in his crop; and the master cannot go against the custom of the country, without laying his land waste. All these children are ready at the farmer's disposal; he can, without any expence, send what parcels of sheep he pleases, to different
distances of half a mile or more, to feed upon spots of ground which, without the convenience of these children, would be entirely lost. By this plan of farming, landlords who have a great extent of country which they are not able to improve, can let the whole in a very few farms, and at the same time all the spontaneous produce of the earth is gathered in and consumed. If you compare the rent of these lands with the extent, it appears very small; if you compare it with the numbers fed upon the farm, you will find that an estate in the highlands maintains, perhaps, ten times as many people as another of the same value in a good and fertile province. Thus it is in some estates as in some convents of the begging order, the more mouths the better cheer.

I shall now suppose our modern policy to inspire an ingenious or public-spirited lady to set up a weaver or two at a farm-house. The cottars begin to spin; they will be a long time in attaining to a dexterity sufficient to appear at the weaver's house, in competition with others who are accustomed to the trade; consequently this manufacture will be long in a languishing condition; but if the undertaking is supported with patience, these obstacles will be got the better of. Those who tended herds of cattle for a poor maintenance, will turn themselves to a more profitable occupation; the farmer will find more difficulty in getting hands, he will complain, perhaps give way; the master will lose a year's rent, and nobody will take so extensive a farm; it must be divided, then it must be improved, and then it produces more grain upon one tenth, than perhaps formerly was produced upon the whole. This grain is bought with the price of spinning; the parents divide with the children, who are fed, and spin in their turn. When this is accomplished, what is the revolution? Why, formerly the earth fed all the inhabitants with her spontaneous productions, as I may call them; now more labour is exercised upon turning up her surface; this she pays in grain, which belongs to the strong man for his labour and toil; women and children have no direct share, because they have not contributed thereto, as they did in feeding cattle. But they spin, and have money to buy what they have not force to produce: consequently they live; but as they become useless as cottars, they remove from their mother earth, and gather into villages. When this change is effected, the lands appear less inhabited; ruinous huts (nay, villages I may call them) are frequently found, and many would be apt to conclude, that the country is depopulated; but this is by no means found to be the case, when the whole is taken together.

The spirit therefore of the principal people of a country determines the employment of the lower classes; the employment of these determines their usefulness to the state, and their usefulness, their multiplication. The more they are useful, the more they gain, according to our definition of the contract of society; the more they gain, the more they can feed; and consequently, the more they will marry and divide with their children. This increases useful population, and encourages agriculture. Compare the former with the present situation, as to numbers, as to ease, as to happiness!

Is it not plain, that when the earth is not improved, it cannot produce so much nourishment for man as when it is? On the other hand, if industry does not draw into the hands of the indigent, wherewith to purchase this additional nourishment, nobody will be at a considerable first expense to break up grounds in order to produce it. The withdrawing therefore a number of hands from a trifling agriculture forces, in a manner, the husbandman to work the harder: and by hard labour upon a
small spot, the same effect is produced as with slight labour upon a great extent.

I have said, that I imagined the state of agriculture in the Scotch farm, was a pretty just representation of the general state of Europe about 400 years ago: if not in every province of every country, at least in every country for the most part. Several reasons induce me to think so: first, where there is no industry, nothing but the earth directly can feed her children, little alienation of her fruits can take place. Next, because I find a wonderful analogy between the way of living in some provinces of different countries with what I have been describing. Pipers, blue bonnets, and oat meal, are known in Swabia, Auvergne, Limousin, and Catalonia, as well as in Lochaber: numbers of idle, poor, useless hands, multitudes of children, whom I have found to be fed, nobody knows how, doing almost nothing at the age of fourteen, keeping of cattle and going to school, the only occupations supposed possible for them. If you ask why they are not employed, their parents will tell you because commerce is not in the country: they talk of commerce as if it was a man, who comes to reside in some countries in order to feed the inhabitants. The truth is, it is not the fault of these poor people, but of those whose business it is to find out employment for them.

Another reason I derive from the nature of the old tenures, where we find lands which now produce large quantities of grain, granted for a mere trifle, when at the same time others in the neighbourhood of cities and abbeys are found charged with considerable rents. This I attribute to the bad cultivation of lands at that time, from which I infer, a small population. In those days of trouble and confusion, confiscations were very frequent, large tracts of lands were granted to the great lords upon different revolutions, and these, finding them often deserted, as is mentioned in history, (the vassals of the former being either destroyed or driven out to make place for the new comers,) used to parcel them out for small returns in every thing but personal service. Such sudden and violent revolutions must dispeoplen a country; and nothing but tranquility, security, order, and industry, for ages together, can render it populous.

Besides these natural causes of population and depopulation (which proceed, as we have observed, from a certain turn given to the spirit of a people), there are others which operate with irresistible force, by sudden and violent revolutions. The King of Prussia, for example, attempted to people, a country all at once, by profiting of the desertion of the Saltzburgers. America is become very poorly peopled in some spots upon the coast, and in some islands, at the expence of the exportation of millions from Europe and from Africa; such methods never can succeed in proportion to the attempt. Spain, on the other hand, was depopulated by the expulsion of its antichristian inhabitants. These causes work evident effects, which there is little occasion to explain, although the more remote consequences of them may deserve observation. I shall, in another place, have occasion to examine the manner of our peopling America. In this place, I shall make a few observations upon the depopulation of Spain, and finish my chapter.

That country is said to have been anciently very populous under the government of the Moors. I am not sufficiently versed in the politics, oeconomy, and manners of that people, to judge how far these might be favourable to population: what seems, however, to confirm what we are told, is, the large repositories they used for preserving grain, which still remain entire, though
never once made use of. They watered the kingdoms of Valencia, Murcia, and Granada. They gathered themselves into cities, of which we still can discover the extent. The country which they now possess (though drier than Spain) furnishes Europe with considerable quantities of grain. The palace of the Moorish King at Granada shews a taste for luxury. The mosque of Cordoua speaks a large capital. All these are symptoms of population, but they only help one to guess. The numbers which history mentions to have been driven out, is a better way still of judging; if the fidelity of historians could be depended upon, when there is any question about numbers.

Here was an example of a country depopulated in a very extraordinary manner: yet I am of opinion, that the scarcity of inhabitants complained of in that country, for a long time after the expulsion, did not so much proceed from the effects of the loss sustained, as from the contrast between the spirit of those christians who remained after the expulsion, and their catholic deliverers. The christians who lived among the Moors, were really Moors as to manners, though not as to religion. Had they adopted the spirit of the subjects of Castile, or had they been governed according to their own, numbers would soon have risen to the former standard. But as the christian lord governed his Murcian, Andalousian, and Granada subjects, according to the principles of christian policy, was it any wonder that in such an age of ignorance, prejudice, and superstition, the country (one of the finest in the world) should be long in recovering? Recover, however, it did; and sooner perhaps than is commonly believed: for I say it was recovered so soon as all the flat and watered lands were brought into cultivation; because I have reason to believe that the Moors never carried their agriculture farther in these southern provinces.

From this I still conclude, that no destruction of inhabitants by expulsion, captivity, war, pestilence or famine, is so permanently hurtful to population, as a revolution in that spirit which is necessary for the increase and support of numbers. Let that spirit be kept up, and let mankind be well governed, numbers will quickly increase to their former standard, after the greatest reduction possible: and while they are upon the augmenting hand, the state will be found in more heart and more vigour, than when arrived even at the former height; for so soon as a state ceases to grow in prosperity, I apprehend it begins to decay both in health and vigour.

Chap. XVII

In what Manner and according to what Proportion do Plenty and Scarcity affect a People

In a former chapter I have examined this question, relatively to mankind fed by the hand of nature: I now come nearer home, and shall keep close to modern times, considering circumstances and effects which by daily experience we see and feel.

I have often said, that numbers are in proportion to the produce of the earth. I now say, that in most countries of Europe, the food produced in the country is nearly consumed by the inhabitants: and by nearly I understand, that the part exported bears a small proportion to the home-consumption. I do by no means establish this as an universal proposition; but I say it is true for the most part: and the intention of this chapter is to enable us to judge how far these limitations should extend. I allow, for example, that Holland, not producing food for its
inhabitants, must draw it from some country which produces a superfluity, regularly. but let it be observed that Poland, Germany, Flanders, and England, with many other countries, contribute their contingents to supply the demand of the Dutch; and of several large trading towns which have small territories. This being the case, the quota furnished by each country, must be in a small proportion to the respective quantity growing in it. But these are general conclusions upon vague suppositions, which throw no light on the question. I shall therefore endeavour to apply our reasoning to facts, and then examine consequences.

There are few countries, I believe, in Europe more abounding in grain than England: I shall therefore keep that kingdom in my eye while I examine this matter. Nothing is more common than to hear that an abundant crop furnishes more than three years' subsistence: nay, I have found it advanced by an author of consideration, (Advantages and Disadvantages of France and Great Britain, &c. article Grain,) that a plentiful year produces five years' nourishment for the inhabitants. If this be a mistake, it may prove a very hurtful one in many respects. I am, on the contrary, apt to believe, that no annual produce of grain ever was so great in England as to supply its inhabitants fifteen months, in that abundance with which they feed themselves in a year of plenty. If this be the case, at what may we compute the surplus in ordinary good years? I believe it will be thought a very good year which produces full subsistence for fourteen months; and crops which much exceed this are, I believe, very rare. Here follow my reasons for differing so widely from the gentleman whom I have cited. If I am in the wrong, I shall have the most sensible pleasure in being set right; and nothing will be so easy to any one who has access to be better informed as to facts than I can pretend to be.

I consider all the yearly crop of grain in England as consumed at home, except what is exported; for I cannot admit that any considerable quantity is lost: that it may be abused, misapplied, drunk when it should be eat, I do not deny. These are questions which do not regard the present inquiry. Whether therefore it be consumed in bread, beer, spirits, or by animals, I reckon it consumed; and in a year when the greatest consumption is made at home, this I call the abundance with which the inhabitants feed themselves in years of plenty. Now I find in the performance above cited, a state of exportations for five years, from 1746 to 1750 inclusive, where the quantity exported amounts in all to 5,289,847 quarters of all sorts of grain. This is not one year's provision, according to Sir William Petty's calculation, of which we have made mention above. The bounties upon corn (continues the author above mentioned) have amounted in one year to 500,000l, sterling. He does not mention the year, and I am little able to dispute that matter with him. I suppose it to be true; and still farther, let it be understood that the whole exportation was made out of the produce of one crop. I do not find that this sum answers to the bounty upon 3,000,000 of quarters, which, according to Sir William Petty, make six months' provision. I calculate thus: The bounty upon wheat is 5s. a quarter, that upon rye 3s. 6d. that upon barley 2s. 6d. these are the species of grain commonly exported: cast the three premiums together, and divide by three, the bounty will come to 3s. 8d. at a medium; at which rate 500,000l. sterling will pay the bounty of 2,727,272 quarters of grain. An immense quantity to be exported! but a very inconsiderable part of a crop supposed capable to maintain England for five years. It may be answered, that the great abundance of a plentiful year is considerably diminished
when a scanty crop happens to precede it, or to follow upon it. In the first case, it is sooner begun upon; in the last, it supplies the consumption in the year of scarcity, considerably. This I allow to be just; but as it is not uncommon to see a course of good years follow one another, the state of exportation at such times must certainly be the best, nay, the only method of judging of the real extent of superfluity.

On the other hand, I am apt to believe, that there never was a year of such scarcity as that the lands of England did not produce greatly above six months, subsistence, such as the people are used to take in years of scarcity. Were six months of the most slender subsistence to fail, I imagine all Europe together might perhaps be at a loss to supply a quantity sufficient to prevent the greatest desolation by famine.

As I have no access to look into records, I content myself with less authentic documents. I find then by the London news-papers, that, from the 9th of April to the 13th of August 1757, while great scarcity was felt in England, there were declared in the port of London no more than 71,728 quarters of wheat, of which 15,529 were not then arrived. So that the whole quantity there imported to relieve the scarcity, was 56,199 quarters. Not one month's provision for the inhabitants of that city, reckoning them at 800,000 souls! One who has access to look into the registers of the trade in grain, might in a moment determine this question. (8*)

Another reason which induces me to believe what the above arguments seem to prove, I draw from what I see at present passing in Germany: I mean the universal complaints of scarcity in those armies which are now assembled (1757). When we compare the numbers of an army, let it be of a hundred thousand men, and forty thousand horses; suppose the suit of it to be as many more, all strangers (for the others I reckon nothing extraordinary); what an inconsiderable number does this appear, in proportion to the inhabitants of this vast country of Germany! Yet let us observe the quantity of provisions of all sorts constantly coming down the Rhine, the Moselle, and many other rivers, collected from foreign provinces on all hands; the numbers of cattle coming from Hungary; the loads of corn from Poland; and all this in a year which has produced what at any other time would have been called an excellent crop. After these foreign supplies, must not one be astonished to find scarcity complained of in the provinces where the war is carried on, and high prices every where else. From such circumstances I must conclude, that people are generally very much deceived in their estimation of plenty and scarcity, when they talk of two or three years' subsistence for a country being found upon their lands at once. I may indeed be mistaken in my conclusions; but the more I have reflected upon this subject, the more I find myself confirmed in them, even from the familiar examples of the sudden rise of markets from very inconsiderable monopolies, and of their sudden fall by inconsiderable quantities imported. I could cite many examples of these vicissitudes, were it necessary, to prove what every one must observe.

I come now to resolve a difficulty which naturally results from this doctrine, and with which I shall close the chapter.

If it be true, that a crop in the most plentiful year is nearly consumed by the inhabitants, what becomes of them in years of scarcity? for nobody can deny, that there is a great difference, between one crop and another. To this I answer, first, That I believe there is also a very great deception, or common mistake, as to the difference between crops: a good year
for one soil, is a bad one for another. But I shall not enlarge on this; because I have no sufficient proof to support my opinion. The principal reason upon which I found it, is, that it is far from being true, that the same number of people consume always the same quantity of food. In years of plenty every one is well fed; the price of the lowest industry can procure subsistence sufficient to bear a division; food is not so frugally managed; a quantity of animals are fatted for use; all sorts of cattle are kept in good heart; and people drink more largely, because all is cheap. A year of scarcity comes, the people are ill fed, and when the lower classes come to divide with their children, the portions are brought to be very small; there is great oeconomy upon consumption, few animals are fatted for use, cattle look miserably, and a poor man cannot indulge himself with a cup of generous ale. Add to all these circumstances that in England the produce of pasture is very considerable, and it commonly happens, that a bad year for grain, which proceeds from rains, is for the same reason a good year for pasture; and in the estimation of a crop, every circumstance must be allowed to enter.

From what has been said I must conclude in general, that the best corn country in the world, provided slavery be not established, does not produce wherewithal fully to maintain, as in years of plenty, one third more than its own inhabitants; for if this should be the case, all the policy of man would not be able to prevent the multiplication of them, until they arose nearly up to the mean proportion of the produce in ordinary years, and it is only what exceeds this standard, and proceeds from unusual plenty, which can be exported. (9*) Were plentiful years more common, mankind would be more numerous; were scarcity more frequent, numbers would be less. Numbers therefore must ever be, in my humble opinion, in the ratio of food, and multiplication will never stop until the balance comes to be nearly even.

Chap. XVIII

Of the Causes and Consequences of a Country's being fully peopled

In the titles of my chapters, I rather seek to communicate a rough idea of the subject than a correct one. In truth and in reason, there is no such thing as a country actually peopled to the full, if by this term numbers only are meant, without considering the proportion they bear to the consumption they make of the productions of their country. I have in a former chapter established a distinction between the physical and moral impossibility of increasing numbers. As to the physical impossibility, the case can hardly exist, because means of procuring subsistence from other countries, when the soil refuses to give more, seem, if not inexhaustible, at least very extensive. A country therefore fully peopled, that is, in a physical impossibility of increasing their numbers, is a chimerical and useless supposition. The subject here under consideration is, the situation of a people, who find it their interest to seek for subsistence from abroad. This may happen, and commonly does, long before the country itself is fully improved: it decides nothing as to the intrinsic fertility of the soil, and proves no more, than that the industry of the free hands has made a quicker progress in multiplying mouths, than that of the farmers in providing subsistence. To illustrate this idea, let me propose the following question: Is multiplication
I answer, that multiplication is the efficient cause of agriculture, though I allow, that, in the infancy of society, the spontaneous fruits of the earth, which are free to all, are the efficient cause of a multiplication, which may rise to the exact proportion of them; as has been said above. This I am now to explain.

I have already distinguished the fruits of agriculture from the earth's spontaneous productions: I must farther take notice, that when I employ the term agriculture in treating of modern policy, I always consider it to be exercised as a trade, and producing a surplus, and not as the direct means of subsisting, where all is consumed by the husbandman, as has been fully explained above. We have said that it is the surplus produced from it, which proves a fund for multiplying inhabitants. Now there must be a demand for this surplus. Every person who is hungry will make a demand, but every such demand will not be answered, and will consequently have no effect. The demander must have an equivalent to give: it is this equivalent which is the spring of the whole machine; for without this the farmer will not produce any surplus, and consequently he will dwindle down to the class of those who labour for actual subsistence. The poor, who produce children, make an ineffectual demand, and when they cannot increase the equivalent, they divide the food they have with the newcomers, and prove no encouragement to agriculture. By dividing, the whole become ill fed, miserable, and thus extinguish. Now because it is the effectual demand, as I may call it, which makes the husbandman labour for the sake of the equivalent, and because this demand increases, by the multiplication of those who have an equivalent to give, therefore I say that multiplication is the cause, and agriculture the effect. On the other hand, I think the spontaneous fruits of the earth, as in the supposition, may be considered as the cause of a certain limited multiplication; because in this case there is no equivalent demanded. The earth produces, whether her fruits be consumed or not: mankind are fed upon these gratuitously, and without labour, and the existence of the fruits is anterior to the production of those who are to consume them. Those who are first fed, draw their vigour from their food, and their multiplication from their vigour. Those who are produced, live freely upon their parent earth, and multiply until all the produce be consumed: then multiplication stops, as we have said; but establish agriculture, and multiplication will go on a-new. Consequently, my reader will say, agriculture is as much the cause of this new multiplication, as the spontaneous fruits were of the first. Here is a very natural conclusion, which seems directly to contradict what we have been endeavouring to prove; but the knot is easily untied. We have seen how the existence of agriculture depends upon the industry of man; and how this industry is the only means of establishing agriculture. Now, as this industry is chiefly promoted by the motive of providing for our children, the procreation of them must be considered as the first, or at least the most palpable political cause of setting mankind to work, and therefore may be considered as anterior to agriculture; whereas, on the other hand, the earth's spontaneous productions being in small quantity, and quite independent of man, appear, as it were, to be furnished by nature, in the same way as a small sum is given to a young man, in order to put him in a way of industry, and of making his fortune. The small sum sets him a-going, but it is his industry which makes the fortune.
From this illustration it appears, that if the demand for food can be more readily supplied from abroad than from home, it will be the foreign subsistence, which will preserve numbers, produced from industry, not from domestic agriculture; and these numbers will, in their turn, produce an advancement of it at home, by inspiring a desire in the husbandman to acquire the equivalent which their countrymen give to strangers.

Such nations, whose statesmen have not the talent to engage the husbandmen to wish for the equivalent, which the labour of their fellow-citizens can produce, or, in other words, who cannot create reciprocal wants and dependences among their subjects, must stand in a moral incapacity of augmenting in numbers. Of such states we have no occasion to treat in this chapter, any more than of those who are supposed to be in the physical incapacity of multiplying: our point of view is, to examine the natural consequences resulting from a demand for subsistence extending itself to foreign countries. This I take to be the mother of industry at home, as well as of trade abroad; two objects which come to be treated of in the second book.

A country may be fully peopled (in the sense we understand this term) in several different ways. It may be fully stocked at one time with six millions, and at another may maintain perhaps eight or even nine millions with ease, without the soil’s being better cultivated or improved. On the other hand, a country may maintain twenty millions with ease, and by being improved as to the soil, become over-stocked with fifteen millions. These two assertions come next to be explained.

The more frugal a people are, and the more they feed upon the plentiful productions of the earth, the more they may increase in numbers.

Were the people of England to come more into the use of living upon bread, and give over consuming so much animal food, inhabitants would certainly increase, and many rich grass fields would be thrown into tillage. Were the French to give over eating so much bread, the Dutch so much the fish, the Flemish so much garden stuff, and the Germans so much sourkraut, and all take to the English diet of pork, beef, and mutton, their respective numbers would soon decay, even although their lands were better improved than at present. These are but reflections, by-the-bye, which the reader may enlarge upon at pleasure. The point in hand is, to know what are the consequences of a country’s being so peopled, no matter from what cause, that the soil, in its actual state of fertility, refuses to supply a sufficient quantity of such food as the inhabitants incline to live upon. These are different according to the diversity of spirit in the people.

If they be of an indolent disposition, directed in their political oeconomy by established habits and old prejudices, which prevent innovations, although a change of circumstances may demand them, the effect will be to put a stop to population; which cannot augment without an increase of food on one hand, and of industry on the other, to make the first circulate. These must go hand in hand: the precedence between them is a matter of mere curiosity and speculation.

If, on the contrary, a spirit of industry has brought the country to a certain degree of population, this spirit will not be stopped by the want of food; it will be brought from foreign countries, and this new demand, by diminishing among them the quantity usually produced for their own subsistence, will prompt the industrious to improve their lands, in order to supply the new demand without any hurt to themselves. Thus trade has an evident tendency towards the improvement of the world in general,
by rendering the inhabitants of one country industrious, in order
to supply the wants of another, without any prejudice to
themselves. Farther:

The country fully stocked can offer in exchange for this
food, nothing but the superfluity of the industry of the free
hands, for that of the farmers is supposed to be consumed by the
society; except indeed some species of nourishment or
productions, which, being esteemed at a higher value in other
countries than in those which produce them, bring a more
considerable return than the value of what is exported, as when
raw silk and delicate wines, &c. are given in exchange for grain
and other provisions.

The superfluity of industry must, therefore, form the
principal part of exportation, and if the nation fully stocked be
surrounded by others which abound in grain and articles of
subsistence, where the inhabitants have a taste for elegance, and
are eager of acquiring the manufactures and improvements of their
industrious neighbours; it is certain, that a trade with such
nations will very considerably increase the inhabitants of the
other, though fully stocked relatively to the production of their
own soil; and the additional inhabitants will increase the number
of manufacturers only, not of husbandmen. This is the case with
Holland, and with many large trading cities which are free and
have but a small territory.

If, on the contrary, the nation fully stocked be in the
neighbourhood of others who take the same spirit as itself, this
supply of food will become in time more difficult to be had, in
proportion as their neighbours come to supply their own wants.
They must therefore seek for it at a greater distance, and as
soon as the expense of procuring it comes to exceed the value of
the labour of the free hands employed in producing the
equivalent, their work will cease to be exported, and the number
of inhabitants will be diminished to the proportion of the
remaining food.

I do not say that trade will cease on this account; by no
means. Trade may still go on, and even be more considerable than
before; but it will be a trade which never can increase
inhabitants, because for this purpose there must be subsistence.
It may have however numberless and great advantages: it may
greatly advance the wealth of the state, and this will purchase
even power and strength. A trading nation may live in profound
peace at home, and send war and confusion among her enemies,
without even employing her own subjects. Thus trade, without
increasing the inhabitants of a country, can greatly add to its
force, by arming those hands which she has not bred, and
employing them for her service.

Chap. XIX

In the Introduction of Machines into Manufactures prejudicial to
the Interest of a State, or hurtful to Population?

This I find has been made a question in modern times. The
ancients held in great veneration the inventors of the saw, of
the lathe, of the wimble, of the potter's wheel; but some moderns
find an abuse in bringing mechanism to perfection (see Les
Interets de la France mal entendus, p. 272. 3 13.); the great
Montesquieu finds fault with watermills, though I do not find
that he has made any objection against the use of the plough.

Did people understand one another, it would be impossible
that such points could suffer a dispute among men of sense; but
the circumstances referred to, or presupposed, which authors always almost keep in their eye, though they seldom express them, render the most evident truths susceptible of opposition.

It is hardly possible suddenly to introduce the smallest innovation into the political oeconomy of a state, let it be ever so reasonable, nay ever so profitable, without incurring some inconveniences. A room cannot be swept without raising dust, one cannot walk abroad without dirtying one's shoes; neither can a machine, which abridges the labour of men, be introduced all at once into an extensive manufacture, without throwing many people into idleness.

In treating every question of political oeconomy, I constantly suppose a statesman at the head of government, systematically conducting every part of it, so as to prevent the vicissitudes of manners, and innovations, by their natural and immediate effects or consequences, from hurting any interest within the commonwealth. When a house within a city becomes crazy, it is taken down; this I call systematical ruin: were it allowed to fall, the consequences might be fatal in many respects. In like manner, if a number of machines are all at once introduced into the manufactures of an industrious nation, (in consequence of that freedom which must necessarily be indulged to all sorts of improvement, and without which a state cannot thrive,) it becomes the business of the statesman to interest himself so far in the consequences, as to provide a remedy for the inconveniences resulting from the sudden alteration. It is farther his duty to make every exercise even of liberty and refinement an object of government and administration; not so as to discourage or to check them, but to prevent the revolution from affecting the interests of the different classes of the people, whose welfare he is particularly bound to take care of.

The introduction of machines can, I think, in no other way prove it: and I have hurtful by making people idle, than by the suddenness of frequently observed, that all sudden revolutions, let them be ever so advantageous, must be accompanied with inconveniences. A safe, honourable, and lasting peace, after a long, dangerous, and expensive war, forces a number of hands to be idle, and deprives them of bread. Peace then may be considered as a machine for defending a nation, at the political loss of making an army idle; yet nobody, I believe, will allege that, in order to give bread to soldiers, sutlers, and undertakers, the war should be continued. But here I must observe, that it seems to be a palpable defect in policy, if a statesman shall neglect to find out a proper expedient (at whatever first expence it may be procured) for giving bread to those who, at the risk of their lives, have gone through so many fatigues for the service of their country. This expence should be charged to the account of the war, and a state ought to consider, that as their safety required that numbers should be taken out of the way of securing to themselves a lasting fund of subsistence, which would have rendered them independent of every body, (supposing that to have been the case,) she becomes bound by the contract of society which ties all together, to find them employment. Let me seek for another illustration concerning this matter.

I want to make a rampart cross a river, in order to establish a bridge, a mill, a sluice, &c. For this purpose, I must turn off the water, that is, stop the river: would it be a good objection against my improvement to say, that the water would overflow the neighbouring lands? as if I could be supposed so improvident as not to have prepared a new channel for it? Machines stop the river; it is the business of the state to make the new channel,
as it is the public which is to reap the benefit of the sluice. I imagine what I have said will naturally suggest an answer to all possible objections against the introduction of machines; as for the advantages of them, they are so palpable that I need not insist upon them. There is, however, one case, in which I think they may be disapproved of; but it seems a chimerical supposition, and is brought in here for no other purpose than to point out and illustrate the principle which influences this branch of our subject.

If you can imagine a country peopled to the utmost extent of the fertility of the soil, and absolutely cut off from any communication with other nations; all the inhabitants fully employed in supplying the wants of one another, the circulation of money going forward regularly, proportionally, and uniformly through every vein, as I may call it, of the political body; no sudden or extraordinary demand at any time for any branch of industry; no redundancy of any employment; no possibility of increasing either circulation, industry, or consumption. In such a situation as this, I should disapprove of the introduction of machines, as I disapprove of taking physic in an established state of perfect health. I disapprove of a machine for no other reason but because it is an innovation in a state absolutely perfect in these branches of its political oeconomy: and where there is perfection there can be no improvement. I farther disapprove of it because it might force a man to be idle, who would be found thereby in a physical impossibility of getting his bread, in any other way than that in which he is supposed to be actually employed.

The present situation of every country in Europe is so widely distant from this degree of perfection, that I must consider the introduction of machines, and of every method of augmenting the produce or assisting the labour and ingenuity of man, as of the greatest utility. Why do people wish to augment population, but in order to compass these ends? Wherein does the effect of a machine differ from that of new inhabitants?

As agriculture, exercised as a trade, purges the land of idle mouths, and pushes them to a new industry which the state may turn to her own advantage; so does a machine introduced into a manufacture, purge off hands which then become superfluous in that branch, and which may quickly be employed in another. If therefore the machine proves hurtful, it can only be because it presents the state with an additional number of hands bred to labour; consequently, if these are afterwards found without bread, it must proceed from a want of attention in the statesman: for an industrious man, made idle, may constantly be employed to advantage, and with profit to him who employs him. What could an act of naturalization do more, than to furnish industrious hands, forced to be idle, and demanding employment? Machines therefore I consider as a method of augmenting (virtually) the number of the industrious, without the expence of feeding an additional numbers: this by no means obstructs natural and useful population, for the most obvious reasons.

We have shewn how population must go on, in proportion to subsistence, and in proportion to industry: now the machine eats nothing, therefore does not diminish subsistence; and industry (in our age at least) is in no danger of being over-stocked in any well-governed state: for let all the world copy your improvements, they still will be the scholars. And if, on the contrary, in the introduction of machines you are found to be the scholars of other nations, in that case you are brought to the dilemma of accepting the invention with all its inconveniences,
or of renouncing every foreign communication.

In speculations of this kind, one ought not, I think, to conclude, that experience must of necessity prove what we imagine our reasoning has pointed out.

The consequences of innovations in political oeconomy, admit of an infinite variety, because of the infinite variety of circumstances which attend them: no reasoning, therefore, however refined, can point out a priori, what upon such occasions must indispensably follow. The experiment must be made, circumstances must be allowed to operate; inconveniences must be prevented or rectified as far as possible; and when these prove too many, or too great to be removed, the most rational, the best concerted scheme in theory must be laid aside, until preparatory steps be taken for rendering it practicable.

Upon the whole, daily experience shews the advantage and improvement acquired by the introduction of machines. Let the inconveniences complained of be ever so sensibly felt, let a statesman be ever so careless in relieving those who are forced to be idle, all these inconveniences are only temporary; the advantage is permanent, and the necessity of introducing every method of abridging labour and expence, in order to supply the wants of luxurious mankind, is absolutely indispensable, according to modern policy, according to experience, and according to reason.

Chap. XX

Miscellaneous Observations upon Agriculture and Population

I have hitherto considered the object of agriculture, as no more than the raising of grain; the food of mankind has been estimated by the quantity they consume of this production; and husbandmen have been supposed to have their residence in the country. As my subject has but an indirect connection with the science of agriculture, I have simplified many things complex in themselves, the better to adapt them to the principal object of my inquiry, and the better to keep my attention fixed upon one idea at a time. I am now going to return to some parts of my subject, which I think I have treated too superficially; and to examine, as I go along, some miscellaneous questions which will naturally arise from what is to be said.

QUEST. I. Every one almost who has written upon population, and upon agriculture, considered as an essential concomitant of it, has recommended the equal distribution of the property of lands as useful to both. a few reflections upon this question, after what has been thrown out in the course of the foregoing chapters, may not be improper; more in order to examine and apply the principles laid down, than with a view to combat the opinion of others.

I have already, upon several occasions, taken notice of the great difference between the political oeconomy of the ancients, and that of modern times; for this reason, among others, that I perceive that the sentiments of the ancients, which were founded upon reason and common sense, relative to their situation, have been adopted by some moderns, who have not perhaps sufficiently attended to the change of our manners, and to the effects which this change must operate upon every thing relative to our oeconomy. The ancients recommended strongly an equal distribution of lands as the best security for liberty, and the best method, not only to preserve an equality among the citizens, but also to increase their number.
In those days, the citizens did not compose one half, perhaps not one fourth, of the state relatively to numbers; and there was no such thing almost as an established moneyed interest, which can nowhere be founded but upon trade, and an extensive industry. In those days there was no solid income, but in land: and this being equally divided among the citizens, was favourable to their multiplication and produced equality. But in our days, riches do not consist in lands only; nay we sometimes find the most considerable proprietors of these in very indifferent circumstances; loaded with debts, and depending upon the indulgence of men who have not an acre, and who are their creditors. Let us therefore divide our lands as we please, we shall never produce equality by it. This, with respect to one point, is an essential difference between us and the ancients. Now as to the other; to wit, population.

The equal division of lands tends greatly, no doubt, to increase the numbers of one class of inhabitants, to wit, the landlords. In ancient times, as has been observed, the chief attention was to increase the citizens, that is, the higher classes of the state; and the equal division of property so effectually produced this effect, that some Greek states were obliged to allow the exposition of children; and Aristotle looked upon it as a thing indispensably necessary, as M. de Montesquieu has very judiciously observed. The multiplication of the lowest classes, that is, of the slaves, never entered into the consideration of the public, but remained purely a matter of private concern; and we find it was a question with some, whether or not it was worth while to breed from them at all. But in our days the principal object is to support the lower classes from their own multiplication; and for this purpose, an unequal division of property seems to me the more favourable scheme; because the wealth of the rich among us, falls naturally into the pockets of our industrious poor; whereas the produce of a very middling fortune does little more than feed the children of the proprietor, who in course become very commonly and very naturally an useless burthen upon the land. Let me apply this to an example. Do we not familiarly observe, that the consolidation of small estates, and the diminution of gentlemen's families of middling fortune, do little harm to a modern state. There are always abundance of this class of inhabitants to be found whenever there is occasion for them. When a great man buys up the lands of the neighbouring gentry, or small proprietors, all the complaints which are heard, turn upon the distress which thence results to the lower classes, from the loss of their masters and protectors; but never one word is heard of that made by the state, from the extinction of the former proprietor's family. This abundantly shews that the object of modern attention is the multiplication of the lower classes; consequently it must be an inconsistency to adopt the practice of the ancients, when our oeconomy is entirely opposite to theirs.

QUEST. II. Let this suffice to point out how far the difference of our manners should influence the division of our lands. I shall now examine a question relative to the science of agriculture, not considered as a method of improving the soil, (this will come in more naturally afterwards,) but of making it produce to the best advantage, supposing it to be already improved.

In treating of the productions of the earth, in consequence of agriculture, I have all along distinguished them from those which spontaneously proceed from the force of nature: these are the immediate gift of God, those are the return of the labour of
his creatures. Every one knows that the labour of mankind is not in proportion to their numbers, but to their industry. The produce therefore of agriculture must be estimated, not according to the quantity of fruits only, but also according to the labour employed to produce them. These things premised, the question here proposed to be examined arises, viz. Which species of agriculture is the most advantageous to a modern society, that which produces the greatest quantity of fruits absolutely taken, or that which produces the greatest quantity relatively taken, I mean to the labour employed?

This question might easily be resolved, in general, by the application of principles already deduced; although it cannot admit of a direct answer, in the manner I have put it. One, therefore, may say indeterminately, that species is the best which produces a surplus the best proportioned to the industry, and to the demands of all the free hands of the state. But as this solution would not lead me to the object I have in view, I have thrown in an alternative in order to gain attention to the principles which I am going to examine, and which influence and determine the establishment of the one or the other species of agriculture.

The principal difficulty I find in the examination of this question, is to distinguish the effects of agriculture from those of this spontaneous production of the earth. The returns from pasture, for example, relatively taken, are, as we have observed, both from reason and from experience, far greater than those of corn fields, (vid. supra, chap. 8.) though I little doubt but that, absolutely taken, the case is quite otherwise; that is to say, that an acre of the finest corn-land will produce more nourishment for man, than an equal portion of the finest pasture: but here we are following the proportion of space and produce, not of labour; for if the produce of both acres be considered relatively to the labour necessary for the cultivation, as well as to the extent, the produce of pasture will be found far greater, this however I ascribe to the spontaneous operation of nature, and not to the superior utility of this kind of agriculture.

Since therefore it is impossible rightly to separate the effects of nature from those of art and industry, in this species of improvement, let us confine our speculations to those only which have for their object the turning up the surface, and the sowing or cultivating annual vegetables. For the better conveying our ideas, let us take an example, and reason from a supposition.

Let me suppose an island of a small extent and fruitful soil, sufficiently improved, and cultivated after the manner of the best lands of England, in the ordinary method of farming.

In this case we may infer, from what was laid down in the 8th chapter, that the number of people employed about farming may be nearly about one half of the whole society. Let the whole inhabitants of the island be called 1000, that is 500 farmers, and as many free hands. The 500 farmers must then feed 1000; the 500 free hands must provide for all the other wants of 1000. By this supposition, and allowing that there is an equal degree of industry in these two classes, the providing of food will appear to be an occupation just equal to that of providing for all other wants.

One of the society proposes to augment the number of inhabitants by introducing a more operose species of agriculture, the produce of which may be absolutely greater, though relatively less.

The first question the statesman would naturally put to this
reformer would be: What is your view in increasing the number of our inhabitants; is it to defend us against our enemies; is it to supply the wants of strangers, and thereby to enrich ourselves; is it to supply our own wants with more abundance; or is it to provide us more abundantly with food? I can hardly find out any other rational view in wishing for an additional number of people in any country whatsoever. Let it be answered, that all these ends may be thereby obtained: and now let us examine how far this reformation upon agriculture will have the effect of increasing inhabitants, how far such increase will procure the ends proposed, and how far the execution of such a plan is a practicable scheme to an industrious people.

If the inhabitants be not sufficiently fed, which is the only thing that can prevent their multiplication, it must proceed from one of two causes. Either first, that those do procreate who cannot produce an equivalent for the food of their children; or secondly, that industry making a quicker progress than agriculture, the industrious come too strongly in competition with one another, for the surplus of food to be found; which has the effect of raising the prices of it, and reducing the portions too low to suffer a division; and thereby of preventing marriage and multiplication in the lower classes of the free hands.

In the first case, it is to no purpose to increase the produce of agriculture, by rendering it more expensive; for those who have no equivalent to give when food is cheap, will still be in greater necessity when it rises in the price. In the second case, it is hurtful to diminish the surplus of the farmers, because the supposition proves that the balance is already too heavy upon the side of the free hands, that is, that the surplus of the farmers is already become insufficient fully to feed them.

Two remedies may be proposed for this inconvenience, the one tending to population, the other to depopulation; and as the end to be compassed is to set the balance even between husbandmen and freehands, I shall explain both, and point out how far from principles it appears, that in either way the end may be attained.

The first tending to increase population is the remedy proposed, and, no doubt, were it possible to introduce a new system of agriculture of a larger absolute production, although the relative production should be less, the inhabitants of the state, becoming thereby better fed, though at a greater cost, would infallibly multiply. Let me therefore examine this first part before I say any thing of the other; and for the greater distinctness I shall return to my example, and examine both the consequences and the possibility of putting such a plan in execution.

Let me suppose, that by using the spade and rake, instead of the plough and harrow, the lands of our island might be brought to produce with more abundance; this is a method of increasing the expence of agriculture, which would require an additional number of husbandmen.

Now, by the supposition, 500 farmers fed, though scantily, the whole of the inhabitants, that is 1000 persons. If therefore 100 of the free hands can be engaged to become farmers, the end may be attained: more nourishment will be produced; the people will be better fed; they will multiply. that is, their number will rise above 1000. Let us next endeavour to form a judgment of this increase, and of the consequence of the revolution.

The society will now be composed of 600 farmers and 400 free hands. The 600 will certainly produce more fruits than formerly; but as their labour is relatively less productive by the
supposition, it will be impossible for them to furnish a surplus equal to their own consumption; consequently, the free hands never will be able to rise to a number equal to theirs; that is, the society will never get up to 1200. But we supposed, that the other wants of the society required the industry of one half of the inhabitants to supply them; that is, of all the 500 free hands; and, as the number of these has been already reduced, and can never more rise to the former proportion, as has been said, must not either the people voluntarily adopt a more simple way of living; or must not the demand for work rise very considerably? Let me consider the consequences in both cases. In the first, you perceive, that if the inhabitants themselves are obliged to simplify their way of living, for want of hands to supply what they formerly consumed, three of the four objects proposed by the reformation become impossible to be attained; to wit, the defending themselves against their enemies, the supplying the wants of strangers, and the supplying their own with more abundance. And with regard to the fourth, the being better fed, this must cease to be the case, the moment the end is obtained; that is, the moment the inhabitants are multiplied up to the proportion of additional food. Consequently, by simplifying their way of life, and allowing farming to stand upon the new footing, they compass not any one of the ends they proposed.

Next, if we suppose, that the inhabitants do not incline to simplify their way of life, but that the wealthy among them insist upon purchasing all the instruments of luxury which they formerly were used to enjoy, must not demand for work greatly rise, and must not, of consequence, an additional encouragement be given to that species of labour which had been diminished, in taking 100 persons from industry, to throw them into the class of farmers? Will not this make them quickly desert their spade, and the rather, as they have taken to an employment less lucrative than that of farming, according to the former system?

So much for the consequences which would follow, in case the plan proposed was found practicable; that is, supposing it to be a thing possible to transport into agriculture a part of an industrious society, already otherwise employed, and to change all at once the relative proportion between those who supply food, and those who purchase it with their industry. We have begun, by taking this first step for granted; and now I am to shew what obstacles will be found in the execution.

We have said, that it is the multiplicity and complexity of wants which give an encouragement to agriculture, and not agriculture, or an abundance of food, which inspires mankind with a disposition to labour. Now, if this principle be true, the supposition we have proceeded upon is absurd. I am afraid, both reason and experience will abundantly prove that it is so.

The natural and necessary effect of industry, in trades and manufactures, is to promote the increase of relative husbandry; which by augmenting the surplus, tends of course to increase the proportion of the free hands relatively to the farmers. A river may as easily ascend to its source, as a people voluntarily adopt a more operose agriculture than that already established, supposing the lands to be fully improved, the spirit of industry to prevail on one hand, and the farmers to have profit only in view on the other.

What farmer could sell the surplus of an expensive agriculture in competition with another who exercised a species relatively more productive?

When lands are improved, the simplification of agriculture is a necessary concomitant of industry, because diminishing expence
is the only method of gaining a preference at market.

QUEST. III. When industry is set on foot, it gives encouragement to agriculture exercised as a trade: and by the allurements of ease, which a large surplus procures to the farmers, it does hurt to that species which is exercised as a method of subsistence. Lands become more generally, and less thoroughly laboured. In some countries, tillage is set on foot and encouraged; this is an operose agriculture. While industry goes forward, and while a people can remain satisfied with a nourishment consisting chiefly of bread, this system of agriculture will subsist, and will carry numbers very high. If wealth increases, and if those who have it begin to demand a much greater proportion of work than formerly, while they consume no more food, then I believe numbers may diminish from the principles I am now going in quest of.

I return to the council of the island where the proposition laid down upon the carpet is, The scanty subsistence of the inhabitants requires redress.

A Machiavelian stands up (of such there are some in every country) and proposes, instead of multiplying the inhabitants, by rendering agriculture more operose, to diminish their number, by throwing a quantity of corn-fields into grass. What is the intention of agriculture, says he, but to nourish a state? By our operose method of plowing and sowing, one half of the whole produce is consumed by those who raise it; whereas by having a great part of our island in pasture, one half of the husbandmen may be saved. Pray what do you propose to do with those whom you intend to make idle? replies a citizen. Let them betake themselves to industry. But industry is sufficiently, nay more than sufficiently, stocked already. If, says Machiavel, the supernumerary husbandmen be thrown out of a way of living, they may go where they please; we have no occasion for them, nor for any one who lives to feed himself alone. But you diminish the number of your people, replies the citizen, and consequently your strength; and if afterwards you come to be attacked by your enemies, you will wish to have those back again for your defence, whom in your security you despised. To this the other makes answer: there you trust to the Egyptian reed. If they be necessary for feeding us at present, how shall we be able to live while we employ them as soldiers? We may live without many things, but not without the labour of our husbandmen. Whether we have our grounds in tillage or in pasture, if this class be rightly proportioned to the labour required, we never can take any from it. In those countries where we see princes have recourse to the land to recruit their armies, we may safely conclude, that there the land is overstocked; and that industry has not as yet been able to purge off all the superfluous mouths: but with us the case is different, where agriculture is justly proportioned to the number of husbandmen. If I propose a reform, it is to augment only the surplus, upon which all the state, except the husbandmen, are fed; if the surplus, after the reform, is greater than at present, the plan is good, although 250 of our farmers should thereby be forced to starve for hunger.

Though no man is, I believe, capable to reason in so inhuman a style, and though the revolution here proposed be an impossible supposition, if meant to be executed all at once, the same effects however must be produced, in every country where we see corn-fields by degrees turned into pasture: the change is gradual only, industry is not overstocked anywhere, and subsistence may be drawn from other countries, where the operose species of agriculture can be carried on with profit.
I must now touch again upon another part of my subject, which I think has been treated too superficially. In a former chapter I have shewn how industry has the natural effect of collecting into towns and cities the free hands of a state, leaving the farmers in their farms and villages. This distribution served the purpose of explaining certain principles; but when examined relatively to other circumstances which at that time I had not in my eye, it will be found by far too general. Let me therefore add some farther observations upon this matter.

The extensive agriculture of plowing and sowing, is the proper employment of the country, and is the foundation of population in every nation fed upon its own produce. Cities are commonly surrounded by kitchen-gardens, and rich grass-fields; these are the proper objects of agriculture for those who live in suburbs, or who are shut up within the walls of small towns. The gardens produce various kinds of nourishment, which cannot easily be brought from a distance, in that fresh and luxuriant state which pleases the eye, and conduces to health. They offer a continual occupation to man, and very little for cattle; therefore are properly situated in the proximity of towns and cities. The grass fields again are commonly either grazed by cows, for the production of milk, butter, cream, &c. which suffer by long carriage; or kept in pasture for preserving fatted animals in good order until the markets demand them; or they are cut in grass for the cattle of the city. They may also be turned into hay with profit; because the carriage of a bulky commodity from a great distance is sometimes too expensive. Thus we commonly find agriculture disposed in the following manner. In the center stands the city, surrounded by kitchen-gardens; beyond these lies a belt of fine luxuriant pasture or hay-fields; stretch beyond this, and you find the beginning of what I call operose farming, plowing and sowing; beyond this lie grazing farms for the fattening of cattle; and last of all come the mountainous and large extents of unimproved or ill improved grounds, where animals are bred. This seems the natural distribution, and such I have found it almost everywhere established, when particular circumstances do not invert the order.

The poorness of the soil near Paris, for example, presents you with fields of rye-corn at the very gates, and with the most extensive kitchen-gardens and orchards, even for cherries and peaches, at a considerable distance from town. Other cities I have found, and I can cite the example of this which I at present inhabit (Padoua), where no kitchen-garden is to be found near it, but every spot is covered with the richest grain; two thirds with wheat, and the remaining third with Indian corn. The reason of this is palpable. The town is of a vast extent, in proportion to the inhabitants; the gardens are all within the walls, and the dung of the city enables the corn-fields to produce constantly. Hay is brought from a greater distance, because the expence of distributing the dung over a distant field, would be greater than that of transporting the hay by water-carriage. The farm-houses here appear no larger than huts, as they really are, built by the farmers, because the space to be laboured is very small, in proportion to the produce; hence it is, that a farmer here pays the value of the full half of the crop to the landlord, and out of the remaining half, not only sows the ground and buys the dung, but furnishes the cattle and labouring instruments, nay even rebuilds his house, when occasion requires.

When first I examined these fertile plains, I began to lament the prodigal consumption of such valuable lands, in a multitude
of very broad highways, issuing to all quarters; many of which I thought might be saved, in consideration of the vast advantage accruing upon such oeconomy. but upon farther rejection I perceived, that the loss was inconsiderable; for the fertility of the soil proceeding chiefly from the manure laid upon it, the loss sustained from the roads ought to be computed at no more than the value of the land when uncultivated. The case would be very different, were roads now to be changed, or new ones carried through the corn-fields; the loss then would be considerable, though even this would be temporary, and affect particular persons only; for the same dung, which now supports these lands in their fertility, would quickly fertilize others in their place, and in a few years matters would stand as at present.

These last reflections naturally lead me to examine a question which has been treated by a very polite French writer, the author of l'Ami de l'Homme, and which comes in here naturally enough, before I put an end to this first book. Here it is.

QUEST. IV. Does an unnecessary consumption of the earth's productions, either in food, clothing, or other wants; and a prodigal employment of fine rich fields, in gardens, avenues, great roads, and other uses which give small returns, hurt population, by rendering food and necessaries less abundant, in a kingdom such as France, in its present situation?

My answer is, That, were France fully cultivated and peopled, the introduction of superfluous consumption would be an abuse, and would diminish the number of inhabitants; as the contrary is the case, it proves an advantage. I shall now give my reasons for differing in opinion from the gentleman whose performance I have cited.

As the question is put, you perceive the end to be compassed is, to render food and necessaries abundant; because the abuse is considered in no other light, than relatively to the particular effect of diminishing the proper quantity of subsistence, which the king would incline to preserve, for the nourishment and uses of his people. I shall confine myself therefore chiefly to this object, and if I shew, that these superfluous employments of the surface of the earth, and prodigal consumptions of her fruits, are really no harm, but an encouragement to the improvement of the lands of France in her present state, I shall consider the question as sufficiently resolved: because if the abuse, as it is called, prove favourable to agriculture, it can never prove hurtful to population; however, from the inattention of government, it may affect foreign trade: This is an object entirely foreign to the present question. But before I enter upon the subject, it is proper to observe, that I am of opinion, that any system of oeconomy which necessarily tends to corrupt the manners of a people, ought by every possible means to be discouraged, although no particular prejudice should result from it, either to population, or to plentiful subsistence.

Now in the question before us, the only abuse I can find in these habits of extraordinary consumption, appears to be relative to the character of the consumers, and seems in no way to proceed from the effects of the consumption. The vices of men may no doubt prove the cause of their making a superfluous consumption; but the consumption they make can hardly ever be the cause of this vice. The most virtuous man in France may have the most splendid table, the richest clothes, the most magnificent equipages, the greatest number of useless horses, the most pompous palace, and most extensive gardens. The most enormous luxury to be conceived, in our acceptation of this term, so long as it is directed to no other object than the consumption of the
labour and ingenuity of man, is compatible with virtue as well as
with vice. This being premised, I come to the point in hand.

France, at present, is in her infancy as to improvement,
although the advances she has made within a century excite the
admiration of the world. I shall not go far in search of the
proof of this assertion. Great tracts of her lands are still
uncultivated, millions of her inhabitants are idle. When all
comes to be cultivated, and all are employed, then she will be in
a state of perfection, relatively to the moral possibility of
being improved. The people are free, slavery is unknown, and
every man is charged with feeding himself, and bringing up his
children. The ports of the country are open to receive
subsistence, and this nation, as much as any other, may be
considered as an individual in the great society of the world;
that is, may increase in power, wealth, and ease, relatively to
others, in proportion to the industry of her inhabitants. This
being the case, all the principles of political oeconomy, which
we have been inquiring after, may freely operate in this kingdom.

France has arrived at her present pitch of luxury, relatively
to consumption, by slow degrees. As she has grown in wealth, her
desire of employing it has grown also. In proportion as her
demands have increased, more hands have been employed to supply
them; for no article of expence can be increased, without
increasing the work of those who supply it. If the same number of
inhabitants in the city of Paris consume four times as much of
any necessary article as formerly, I hope it will be allowed,
that the production of such necessaries must be four times as
abundant, and consequently, that many more people must be
employed in providing them.

What is it that encourages agriculture, but a great demand
for its productions? What encourages multiplication, but a great
demand for people; that is, for their work? Would any one
complain of the extravagant people in Paris, if, instead of
consuming those vast superfluities, they were to send them over
to Dover, for a return in English gold? Where is the difference
between the prodigal consumption and the sale? The one brings in
money, the other brings in none: but as to food and necessaries,
for providing the poor and frugal, their contingent, in either
case, stands exactly the same.

But, says one, were it not for this extraordinary
consumption, every thing would be cheaper. This I readily allow;
but will any body say, that reducing the price of the earth’s
productions is a method to encourage agriculture; especially in a
country where grounds are not improved, and where they cannot be
improved; chiefly, because the expence surpasses all the profits
which possibly can be drawn from the returns? High prices
therefore, the effect of great consumption, are certainly
advantageous to the extension of agriculture. If I throw my rich
corn fields into gravel-walks and gardens, they will no more, I
suppose, come into competition with those of my neighbour, the
laborious husbandman. Who will then lose by my extravagance? Not
the husbandman. It will perhaps be said, the nation in general
will lose; because you deprive them of their food. This might be
true, were the laying waste the cornfields a sudden revolution,
and extensive enough to affect the whole society and were the
sea-ports and barriers of the kingdom shut: but that not being
the case, the nation, upon the smallest deficiency, goes to
market with her money, and loses none of her inhabitants.

Obj. But if living is made dear, manufacturers must starve,
for want of employment.

Answ. Not those who supply home consumption, but those only
who supply foreigners living more cheaply; and of such I know but few. The interest of this class shall be fully examined in another place. At present I shall only observe, that the laying waste corn-fields in an industrious country, where refinement has set on foot a plan of useful husbandry, will have no other effect, than that of rendering grain for a while proportionally dearer: consequently, agriculture will be thereby encouraged; and in a few years the loss will be repaired, by a farther extension of improvement. This will make food plentiful and cheap: then numbers will increase, until it become scarce again. It is by such alternative vicissitudes, that improvement and population are carried to their height. While the improvement of lands goes forward, I must conclude, that demand for subsistence is increasing; and if this be not a proof of population, I am much mistaken.

I can very easily suppose, that a demand for work may increase considerably, in consequence of an augmentation of riches only because there are no bounds to the consumption of work; but as for articles of nourishment, the case is quite different. The most delicate liver in Paris will not put more of the earth's productions into his belly, than another: he may pick and choose, but he will always find, that what he leaves will go to feed another: victuals are not thrown away in any country I have ever been in. It is not in the most expensive kitchens where there is found the most prodigal dissipation of the abundant fruits of the earth; and it is with such that a people is fed, not with ortolans, truffles, and oysters, sent from Marenne.

From what has been said, I must conclude, that while the consumption of the earth’s produce, and of the work of man tends to excite industry, in providing for extraordinary demands; when the interest of foreign trade does not enter into the question; and while there are lands enough remaining unimproved, to furnish the first matter, namely, subsistence, flax, wool, silk, timber, etc. there can be no political abuse from the misapplication or unnecessary destruction of either fruits or labour. The misapplier, or dissipator, is punished by the loss of his money; the industrious man is rewarded by the acquisition of it. We have said, that vice is not more essentially connected with superfluity, than virtue with industry and frugality. But such questions are foreign to my subject. I would however recommend it to moralists, to study circumstances well, before they carry a pretended reformation so far, as to interrupt an established system in the political oeconomy of their country.

NOTES:

1. Although in common language we call ministers of state, and even such as are eminent for their knowledge in state affairs, by the name of statesmen, the reader is here advertised to attend carefully to the definition of this word in the text, because the term statesman is uniformly taken in the same acceptation through this whole work.

2. By Roderigo, the last king of the Gothic line.

3. Given by an Austrian officer to a Genoese, which occasioned the revolt in 1747 by which the Germans were expelled the city.

4. As my subject is different from the doctrine of morals, I have no occasion to consider the term luxury in any other than a political sense, to wit, as a principle which produces
employment, and gives bread to those who supply the demands of the rich. For this reason I have chosen the above definition of it, which conveys no idea, either of abuse, sensuality, or excess; nor do I, at present, even consider the hurtful consequences of it as to foreign trade. Principles here are treated of with regard to mankind in general, and the effects of luxury are only considered relatively to multiplication and agriculture. Our reasoning will take a different turn, when we come to examine the separate interest of nations, and the principles of trade.

5. I beg, therefore, that at present my reasoning may be carried no farther (from inductions and suppositions) than my intention is that it should be. I am no patron, either of vice, profusion, or the dissipation of private fortunes; although I may now and then reason very coolly upon the political consequences of such diseases in a state, when I consider only the influence they have as to feeding and multiplying a people. My subject is too extensive of itself to admit of being confounded with the doctrine either of morals, or of government, however closely these may appear connected with it; and did I not begin by simplifying ideas as nuc as possible, and by banishing combinations of them, I should quickly lose my way, and involve myself in perplexities inextricable.

6. Every transition of money from hand to hand, for a valuable consideration, implies some service done, something wrought by man, or performed by his ingenity, or some consumption of something produced by his labour. The quicker therefore the circulation of money is in any country, the more strongly it may be inferred, that the inhabitats are laborious; and vice versa: but of this more hereafter.

7. Hence we may conclude, that in those countries where the people live upon the spontaneous fruits, the whole society (considered in a political light) is found composed of free hands. Nature there supplies the place of the whole class of farmers.

   We have said that industry and manufactures are the occupation of the free hands of a state; consequently, where the proportion of them is the largest, industry should flourish to the greatest advantage; that is to say, in countries where the inhabitants live upon the spontaneous fruits: but this is not the case. Why? Because there is another circumstance of equal weight which prevents it. These people are unacquainted with want, and want is the spur to industry. Let this suffice, in general, as to the distribution of inhabitants in countries unacquainted with labour.

8. This question is now with the greatest precision resolved by the publisher of a pamphlet intitled, Three Tracts on the Corn Trade and Corn Laws, with a Supplement; Lond. 1766. Second Edit. (C. Smith).

   We have there, authentic accounts of all the grain exported from England, or imported into it from abroad, from 1697 to 1765, from which it appears (p. III.) that the greatest quantity of all sorts of grain ever exported, viz. of wheat, barley, oats, oatmeal, and rye, was in the year 1750, and amounted to 1,606,688 English quarters; and (p. 144.) we have an ingenious computation of the growth, consumption, export, and import of these grains, upon averages taken from the 68 years above mentioned; where the
ordinary or mean consumption of England is rated at 13,555,850 quarters. So the greatest exportation ever known in one year very little exceeds 1/8 of the ordinary consumption, and is equivalent to about 46 days' provision only.

On the other hand, the greatest importation ever known, was in the year 1757, when the total quantity imported, was 151,743 quarters of all sorts of grain as above, which does not amount to 1/89 of the ordinary consumption of the people of England, and is equivalent to their subsistence for 4 days 2 hours and 24 minutes (p. 124).

These facts were unknown to me when I wrote this chapter. I had at that time been long abroad, and had very little communication with my own country: and though I very strongly felt the consequences of my own reasoning, I was so far overawed by the force of the popular opinion, that I durst not venture to rate either the surplus or the deficiency otherwise than it is found in the text.

9. The truth of this, also, is made evident from the tracts cited in the last note: but to a far greater extent, than I could take upon me to affirm from theory alone.

It is there said (p. 144.) that the mean export in England, is barely 1/33 (1/32) part of the growth exclusive of the seed; and that the mean import is equal to 1/571 part of the consumption, and 1/18 part of the export.

It would be amazing indeed, were a people, so circumstanced with respect to subsistence, ever found in a real want of foreign supply. But it is nowise amazing, that those who have no interest in agriculture, should complain, and cry out for importation, when a bad policy in the corn trade, and the want of a small granary, equal to the national consumption during five days only, make prices occasionally rise, and when the smallest quantity imported from abroad is found to make them immediately fall, though at a considerable loss both to the agriculture and the trade of the nation.

If it be asked, how so small a deficiency as 1/571 part of the ordinary consumption, should make so sensible a difference to a nation, as to raise prices to an exorbitant height? And how an overplus so small as 1/33 should be considered as great plenty, and make prices fall universally? I answer, that if in a good year, after every man, and every animal has been fully fed, there shall still remain on hand a quantity equal to 1/33 of what has been consumed, this overplus, considered by itself, is a very great quantity, though small if considered relatively to the total consumption of the kingdom; and were it not exported, it would sink prices too much and ruin the farmer. That in a bad year, again, the deficiency of 1/571 part of the ordinary consumption, though very inconsiderable relatively to the whole, is still very great when we consider, that before prices can rise so high as to make government think of opening the ports to importation, the lowest classes of the industrious inhabitants, whose gains are small, must have been already reduced to the minimum of their consumption; and when people are brought to the minimum, a very small diminution upon their food may bring on the greatest distress.

In good years, we are therefore to consider the quantity exported, as that part of the crop which is over and above the full nourishment for men and cattle: And in bad years, we are to consider what is imported, to be what is wanting of the scruply necessary, for subsisting the lowest classes of our people, at the price they can afford to pay for it.
But among all the ingenious inquiries which the English have made into this subject, I have never seen (till of late in a new publication intitled the Farmer's Letters) any attempt made, to compare the prices of subsistence with the rate of the lowest gains of the industrious who must go to market. From the exposition of this matter by this ingenious author, it appears very plain to me, that prices have never risen so high in England, as to make importation necessary. The very lowest manufacturer and day-labourer there, may live better at the highest price of subsistence in any year since the beginning of this century, than the generality of such of their order actually do, in any country in Europe which I have seen. From which I conclude that as long as matters stand in this situation, all importation of subsistence from foreign nations, not under the dominion of Great Britain should be intirely suspended.

An Inquiry into the Principles of Political Economy
by James Steuart

Book II

Of Trade and Industry

Introduction

Before I enter upon this second book, I must premise a word of connexion, in order to conduct the ideas of my reader by the same way through which the chain of my own thoughts, and the distribution of my plan have naturally led me.

My principal view hitherto has been to prepare the way for an examination of the principles of modern politics, by inquiring into those which have, less or more, operated regular effects in all the ages of the world.

In doing this, I confess, it has been impossible for me not to anticipate many things which, according to the plan I have laid down, will in some measure involve me in repetitions.

I propose to investigate principles which are all relative and depending upon one another. It is impossible to treat of these with distinctness, without applying them to the objects on which they have an influence; and as the same principles extend their influence to several branches of my subject, those of my readers who keep them chiefly in their eye, will not find great variety in the different applications of them.

In all compositions of this kind, two things are principally requisite. The first is, to represent such ideas as are abstract, clearly, simply, and uncompounded. This part resembles the forging out the links of a chain. The second is, to dispose those ideas in a proper order; that is, according to their most immediate relations. When such a composition is laid before a good understanding, memory finishes the work, by cementing the links together; and provided any one of them can be retained, the rest will follow of course.

Now the relations between the different principles of which I treat, are indeed striking to such as are accustomed to abstract reasoning, but not near so much as when the application of them is made to different examples.

The principle of self-interest will serve as a general key to this inquiry; and it may, in one sense, be considered as the ruling principle of my subject, and may therefore be traced
throughout the whole. This is the main spring, and only motive which a statesman should make use of, to engage a free people to concur in the plans which he lays down for their government.

I beg I may not here be understood to mean, that self-interest should conduct the statesman: by no means. Self-interest, when considered with regard to him, is public spirit; and it can only be called self-interest, when it is applied to those who are to be governed by it.

From this principle, men are engaged to act in a thousand different ways, and every action draws after it certain necessary consequences. The question therefore constantly under consideration comes to be, what will mankind find it their interest to do, under such and such circumstances?

In order to exhaust the subject of political oeconomy, I have proposed to treat the principles of it in relation to circumstances; and as these are infinite, I have taken them by the more general combinations, which modern policy has formed. These, for the sake of order, I have represented as all hanging in a chain of consequences, and depending on one another. See Book I. Chap. ii.

I found this the best method for distributing my plan, from which it is natural to infer, that it will also prove the best for enabling my readers to retain it.

I shall do what I can to diversify, by various circumstances, the repetitions which this disposition must lead me into. There is no seeing a whole kingdom, without passing now and then through a town which one has seen before. I shall therefore imitate the traveller, who, upon such occasions, makes his stay very short, unless some new curiosity should happen to engage his attention.

I have said, that self-interest is the ruling principle of my subject, and I have so explained myself, as to prevent any one from supposing, that I consider it as the universal spring of human actions. Here is the light in which I want to represent this matter.

The best way to govern a society, and to engage every one to conduct himself according to a plan, is for the statesman to form a system of administration, the most consistent possible with the interest of every individual, and never to flatter himself that his people will be brought to act in general, and in matters which purely regard the public, from any other principle than private interest. This is the utmost length to which I pretend to carry my position. As to what regards the merit and demerit of actions in general, I think it fully as absurd to say, that no action is truly virtuous, as to affirm, that none is really vicious.

It might perhaps be expected, that, in treating of politics, I should have brought in public spirit also, as a principle of action; whereas all I require with respect to this principle is merely a restraint from it; and even this is, perhaps, too much to be taken for granted. Were public spirit, instead of private utility, to become the spring of action in the individuals of a well-governed state, I apprehend, it would spoil all. Let me explain myself.

Public spirit, in my way of treating this subject, is as superfluous in the governed, as it ought to be all-powerful in the statesman; at least, if it is not altogether superfluous, it is fully as much so, as miracles are in a religion once fully established. Both are admirable at setting out, but would shake every thing loose, were they to continue to be common and familiar. Were miracles wrought every day, the laws of nature
would no longer be laws: and were every one to act for the public, and neglect himself, the statesman would be bewildered, and the supposition is ridiculous.

I expect, therefore, that every man is to act for his own interest in what regards the public; and, politically speaking, every one ought to do so. It is the combination of every private interest which forms the public good, and of this the public, that is, the statesman only, can judge. You must love your country. Why? Because it is yours. But you must not prefer your own interest to that of your country. This, I agree, is perfectly just and right: but this means no more, than that you are to abstain from acting to its prejudice, even though your own private interest should demand it; that is, you should abstain from unlawful gain. Count Julian, for example, who, from private resentment, it is said, brought the Moors into Spain, and ruined his country, transgressed this maxim. A spy in an army, or in a cabinet, who betrays the secrets of his country, and he who sells his trust, are in the same case: defrauding the state is, among many others, a notorious example of this. To suppose men, in general, honest in such matters, would be absurd. The legislature therefore ought to make good laws, and those who transgress them ought to be speedily, severely, and most certainly punished. This belongs to the coercive part of government, and, falling beyond the limits of my subject, is ever taken for granted.

Were the principle of public spirit carried farther; were a people to become quite disinterested; there would be no possibility of governing them. Every one might consider the interest of his country in a different light, and many might join in the ruin of it, by endeavouring to promote its advantages. Were a rich merchant to begin and sell his goods without profit, what would become of trade? Were another to defray the extraordinary expense of some workmen in a hard year, in order to enable them to carry on their industry, without raising their price, what would become of others, who had not the like advantages? Were a man of a large landed estate to sell his grain at a low price in a year of scarcity, what would become of the poor farmers? Were people to feed all who would ask charity, what would become of industry? These operations of public spirit ought to be left to the public, and all that is required of individuals is, not to endeavour to defeat them.

This is the regular distribution of things, and it is this only which comes under my consideration. In ill-administered governments, I admire as much as any one every act of public spirit, every sentiment of disinterestedness, and nobody can have a higher esteem for every person remarkable for them.

The less attentive any government is to do their duty, the more essential it is that every individual be animated by that spirit, which then languishes in the very part where it ought to flourish with the greatest strength and vigour; and on the other hand, the more public spirit is shewn in the administration of public affairs, the less occasion has the state for assistance from individuals.

Now as I suppose my statesman to do his duty in the most minute particulars, so I allow every one of his subjects to follow the dictates of his private interest. All I require is an exact obedience to the laws. This also is the interest of every one; for he who transgresses ought most undoubtedly to be punished: and this is all the public spirit which any perfect government has occasion for.
Chap. I

Of the reciprocal Connections between Trade and Industry

I am now going to treat of trade and industry, two different subjects, but which are as thoroughly blended together, as those we have discussed in the first book. Similar to these in their mutual operations, they are reciprocally aiding and assisting to each other, and it is by the constant vibration of the balance between them, that both are carried to their height of perfection and refinement.

TRADE is an operation, by which the wealth, or work, either of individuals, or of societies, may, by a set of men called merchants, be exchanged, for an equivalent, proper for supplying every want, without any interruption to industry, or any check upon consumption.

INDUSTRY is the application to ingenious labour in a free man, in order to procure, by the means of trade, an equivalent, fit for the supplying every want.

I must observe, that these definitions are only just, relatively to my subject, and to one another: for trade may exist without industry, because things produced partly by nature may be exchanged between men; industry may be exercised without trade, because a man may be very ingenious in working to supply his own consumption, and where there is no exchange, there can be no trade. Industry likewise implies something more than labour. Industry, as I understand the term, must be voluntary; labour may be forced: the one and the other may produce the same effect, but the political consequences are vastly different.

Industry, therefore, is applicable to free men only; labour may be performed by slaves.

Let me examine this last distinction a little more closely, the better to try whether it be just, and to point out the consequences which result from it.

I have said, that without the assistance of one of the three principles of multiplication, to wit, slavery, industry, or charity, there was no possibility of making mankind subsist, so as to be serviceable to one another, in greater numbers than those proportioned to the spontaneous fruits of the earth. Slavery and industry are quite compatible with the selfish nature of man, and may therefore be generally established in any society: charity, again, is a refinement upon humanity, and therefore, I apprehend, it must ever be precarious.

Now I take slavery and industry to be equally compatible with great multiplication, but incompatible with one another, without great restrictions laid upon the first. It is a very hard matter to introduce industry into a country where slavery is established; because of the unequal competition between the work of slaves and that of free men, supposing both equally admitted to market. Here is the reason:

The slaves have all their particular masters, who can take better care of them, than any statesman can take of the industrious freemen; because their liberty is an obstacle to his care. The slaves have all their wants supplied by the master, who may keep them within the limits of sobriety. He may either recruit their numbers from abroad, or take care of the children, just as he finds it his advantage. If breeding from the slaves should prove unprofitable, either their children will die for want of care, or by promiscuous living few will be born, or by keeping the sexes asunder, they will be prevented from breeding at all. A troop of manufacturing slaves, considered in a
political light, will be found all employed, all provided for, and their work, when brought to market by the master, may he afforded much cheaper, than the like performed by freemen, who must every one provide for himself, and who may perhaps have a separate house, a wife, and children, to maintain, and all this from an industry which produces no more, nay not so much, as that of a single slave, who has no avocation from labour. Why do large undertakings in the manufacturing way ruin private industry, but by coming nearer to the simplicity of slaves? Could the sugar-islands be cultivated to any advantage by hired labour? Were not the expences of rearing children supposed to be great, would slaves ever be imported? Certainly not: and yet it is still a doubt with me, whether or not a proper regulation for bringing up the children of slaves might not turn this expedient to a better account, than the constant importation of them. But this is foreign to the present purpose. All I intend here to observe is the consequences of a competition between the work of slaves and that of free men; from which competition I infer, that, without judicious regulations, it must be impossible for industry ever to get the better of the disadvantages to which it will necessarily be exposed at first, in a state where slavery is already introduced.

These regulations ought to be made with a view to prevent the competition between the industrious freemen and the masters of slaves, by appropriating the occupation of each to different objects: to confine slavery, for example, to the country, that is, to set the slaves apart for agriculture, and to exclude them from every other service of work. With such a regulation perhaps industry might succeed. This was not the case of old; industry did not succeed as at present: and to this I attribute the simplicity of those times.

It is not so difficult to introduce slavery into a state where liberty is established; because such a revolution might be brought about by force, and, for the reasons and violence, which make every thing give way above-mentioned, I must conclude, that the consequences of such a revolution would tend to extinguish, or at least, without the greatest industry: but were such precaution, greatly to check the progress of precautions properly taken; were slavery reduced to a temporary and conditional service, and put under proper regulations; it might prove, of all others, the most excellent expedient for rendering the lower classes of a people happy and flourishing; and for preventing that abusive procreation, from which the great misery to which they are exposed at present chiefly proceeds. But as every modification of slavery is quite contrary to the spirit of modern times, I shall carry such speculations no farther. Thus much I have thought it necessary to observe, by the way, only for the sake of some principles which I shall have occasion afterwards to apply to our own oeconomy for where-ever any notable advantage is found accompanying slavery, it is the duty of a modern statesman to fall upon a method of profiting by it, without wounding the spirit of European liberty. And this he may accomplish in a thousand ways, by the aid of good laws, calculated for cutting off from the lower classes of a people any interest they can have in involving themselves in want and misery, opening to them at the same time an easy progress towards ease and prosperity.

Here follows an exposition of the principles, from which I was led to say, in a former chapter, that the failure of the slavish form of feudal government, and the extension thereby given to civil and domestic liberty, were the source from which the whole system of modern policy has sprung.
Under the feudal form, the higher classes were perhaps more free than at present, but the lower classes were either slaves, or under a most servile dependence, which, as to the consequence of interrupting the progress of private industry, is entirely the same thing.

I cannot pretend to advance, as a confirmation of this doctrine, that the establishment of slavery in our colonies in America was made with a view to promote agriculture, and to curb manufactures in the new world, because I do not know much of the sentiments of politicians at that time: but if it be true, that slavery has the effect of advancing agriculture, and other laborious operations which are of a simple nature, and at the same time of discouraging invention and ingenuity; and if the mother-country has occasion for the produce of the first, in order to subsist or to employ those who are taken up at home in the prosecution of the latter; then I must conclude, that slavery has been very luckily, if not politically, established to compass such an end: and therefore, if any colony, where slavery is not common, shall ever begin to rival the industry of the mother-country, a very good way of frustrating the attempt will be, to encourage the introduction of slaves into such colonies without any restrictions, and to allow it to work its natural effect.

Having given the definition of trade and industry, as relative to my inquiry, I come now to examine their immediate connections, the better to cement the subject of this book, with the principles deduced in the former.

In treating of the reciprocal wants of a society, and in shewing how naturally their being supplied by labour and ingenuity tends to increase population on one hand, and agriculture on the other, the better to simplify our ideas, we supposed the transition to be direct from the manufacturer to the consumer, and both to be members of the same society. Matters now become more complex, by the introduction of trade among different nations, which is a method of collecting and distributing the produce of industry, by the interposition of a third principle. Trade receives from a thousand hands, and distributes to as many.

To ask, whether trade owes its beginning to industry, or industry to trade, is like asking, whether the motion of the heart is owing to the blood, or the motion of the blood to the heart. Both the one and the other, I suppose, are formed by such insensible degrees, that it is impossible to determine where the motion begins. But so soon as the body comes to be perfectly formed, I have little doubt of the heart's being the principle of circulation. Let me apply this to the present question.

A man must first exist, before he can feel want; he must want, that is, desire, before he will demand; and he must demand, before he can receive. This is a natural chain, and from it we have concluded in Book I, that population is the cause, and agriculture the effect.

By a parallel reason it may be alleged, that as wants excite to industry, and are considered as the cause of it; and as the produce of industry cannot be exchanged without trade; so trade must be an effect of industry. To this I agree: but I must observe, that this exchange does not convey my idea of trade, although I admit, that it is the root from which the other springs; it is the seed, but not the plant; and trade, as we have defined it, conveys another idea. The workmen must not be interrupted, in order to seek for an exchange, nor the consumer put to the trouble of finding out the manufacturer. The object of trade therefore is no more than a new want, which calls for a set
of men to supply it; and trade has a powerful effect in promoting industry, by facilitating the consumption of its produce.

While wants continue simple and few, a workman finds time enough to distribute all his work: when wants become more multiplied, men must work harder; time becomes precious; hence trade is introduced. They who want to consume, send the merchant, in a manner, to the workman for his labour, and do not go themselves; the workman sells to this interposed person, and does not look out for a consumer. Let me now take a familiar instance of infant trade, in order to shew how it grows and refines: this will illustrate what I have been saying.

I walk out of the gates of a city in a morning, and meet with five hundred persons, men and women, every one bringing to market a small parcel of herbs, chickens, eggs, fruits, &c. It occurs to me immediately that these people must have little to do at home, since they come to market for so small a value. Some years afterwards, I find nothing but horses, carts, and waggons, carrying the same provisions. I must then conclude, that either those I used to meet before are no more in the country, but purged off, as being found useless, after a method has been found of collecting all their burdens into a few carts; or that they have found out a more profitable employment than carrying eggs and greens to market. Whichever happens to be the case, this change will point out the introduction of what I call trade; to wit, this collecting of eggs, fruit, fowl, &c. from twenty hands, in order to distribute it to as many more within the walls. The consequence is, that a great deal of labour is saved; that is to say, the cart gives time to twenty people to labour, if they are disposed to it; and when wants increase, they will be ready to supply them.

We cannot therefore say, that trade will force industry, or that industry will force trade; but we may say, that trade will facilitate industry, and that industry will support trade. Both the one and the other however depend upon a third principle; to wit, a taste for superfluity, in those who have an equivalent to give for it. This taste will produce demand, and this again will become the main spring of the whole operation.

Chap. II

Of Demand

This is no new subject; it is only going over what has been treated of very extensively in the first book, under another name, and relatively to other circumstances. These ideas were there kept as simple as possible; here they take a more complex form, and appear in a new dress.

The wants of mankind were said to promote their multiplication, by augmenting the demand for the food of the free hands, who, by supplying these wants, are enabled to offer an equivalent for their food, to the farmers who produced it; and as this way of bartering is a representation of trade in its infancy, it is no wonder that trade, when grown up, should still preserve a resemblance to it.

Demand, considered as a term appropriated to trade, will now be used instead of wants; the term used in the first book relatively to bartering; we must therefore expect, that the operations of the same principle, under different appellations, will constantly appear similar, in every application we can make of it to different circumstances.

Whether this term be applied to bartering or to trade, it
must constantly appear reciprocal. If I demand a pair of shoes, the shoemaker either demands money, or something else for his own use. To prevent therefore the ambiguity of a term, which, from the sterility of language, is taken in different acceptations, according to the circumstances which are supposed to accompany it, I shall endeavour shortly to analyze it.

First, Demand is ever understood to be relative to merchandize. A demand for money, except in bills of exchange, is never called demand. When those who have merchandize upon hand, are desirous of converting them into money, they are said to offer to sale; and if, in order to find a buyer, they lower their price, then, instead of saying the demand for money is high, we say the demand for goods is low.

Secondly, Suppose a ship to arrive at a port loaded with goods, with an intention to purchase others in return, the operation becomes only double. The ship offers to sale, and the demand of the port is said to be high or low, according to the height of the price offered, not according to the quantity demanded, or number of demanders. When all is sold, then the ship becomes demander, and if his demand be proportionally higher than the former, we say upon the whole, that the demand is for the commodities of the port; that is, the port offers, and the ship demands. This I call reciprocal demand.

Thirdly, Demand is either simple or compound. Simple, when the demander is but one, compound, when they are more. But this is not so much relative to persons as to interests. Twenty people demanding from the same determinate interest form but a simple demand; it becomes compound or high, when different interests produce a competition. It may therefore be said, that when there is no competition among buyers, demand is simple, let the quantity demanded be great or small, let the buyers be few or many. When therefore in the contract of barter, the demand upon one side is simple, upon the other compound, that which is compound is constantly called the demand, the other not.

Fourthly, Demand is either great or small: great, when the quantity demanded is great; small, when the quantity demanded is small.

Fifthly, Demand is either high or low. high, when the competition among the buyers is great; low, when the competition among the sellers is great. From these definitions it follows, that the consequence of a great demand, is a great sale; the consequence of a high demand, is a great price. The consequence of a small demand, is a small sale; the consequence of a low demand, is a small price.

Sixthly, The nature of demand is to encourage industry, and when, it is regularly made, the effect of it is, that the supply for the most part is found to be in proportion to it, and then the demand is commonly simple. It becomes compound from other circumstances. As when it is irregular, that is, unexpected, or when the usual supply fails; the consequence of which is, that the provision made for the demand, falling short of the just proportion, occasions a competition among the buyers, and raises the current, that is, the ordinary prices. From this it is, that we commonly say, demand raises prices. Prices are high or low according to demand. These expressions are just; because the sterility of language obliges us there to attend to circumstances which are only implied.

Demand is understood to be high or low, relatively to the common rate of it, or to the competition between buyers, to obtain the provision made for it. When demand is understood to be relative to the quantity demanded, it must be called great or
small, as has been said.

Seventhly, Demand has not always the same effect in raising prices. we must therefore carefully attend to the difference between a demand for things of the first necessity for life, and for things indifferent; also between a demand made by the immediate consumers, and one made by merchants, who buy in order to sell again. In both cases the competition will have different effects. Things of absolute necessity must be procured, let the price be ever so great: consumers who have no view to profit, but to satisfy their desires, will enter into a stronger competition than merchants, who are animated by no passion, and who are regulated in what they offer by their prospect of gain alone. Hence the great difference in the price of grain in different years; hence the uniform standard of the price of merchandize, at the India sales and in fairs of distribution, such as Franckfort, Beaucaire, &c., hence, also, the advantage which consumers find in making their provision at the same time that merchants make theirs; hence the sudden rise and fall in the price of labouring cattle in country markets, where every one provides for himself.

Let what has been said suffice at setting out: this principle will be much better explained by its application as we advance, than by all the abstract distinctions I am capable to give of it.

Chap. III

Of the first Principles of bartering, and how this grows into Trade

I must now begin by tracing trade to its source, in order to reduce it to its first principles.

The most simple of all trade, is that which is carried on by bartering the necessary articles of subsistence. If we suppose the earth free to the first possessor, this person who cultivates it will first draw from it his own food, and the surplus will be the object of barter: he will give this in exchange to any one who will supply his other wants. This (as has been said) supposes naturally both a surplus quantity of food produced by labour, and also free hands; for he who makes a trade of agriculture cannot supply himself with all other necessaries, as well as food; and he who makes a trade of supplying the farmers with such necessaries in exchange for his surplus of food, cannot be employed in producing that food. The more the necessities of man increase, cateris paribus, the more free hands are required to supply them; and the more free hands are required, the more surplus food must be produced by additional labour, to supply their demand.

This is the least complex kind of trade, and may be carried on to a greater or less extent, in different countries, according to the different degrees of the wants to be supplied. In a country where there is no money, nor any thing equivalent to it, I imagine the wants of mankind will be confined to few objects; to wit, the removing the inconveniences of hunger, thirst, cold, heat, danger, and the like. A free man who by his industry can procure all the comforts of a simple life, will enjoy his rest, and work no more: And, in general, all increase of work will cease, so soon as the demand for the purposes mentioned comes to be satisfied. There is a plain reason for this. When the free hands have procured, by their labour, wherewithal to supply their wants, their ambition is satisfied; so soon as the husbandmen have produced the necessary surplus for relieving theirs, they work no more. Here then is a natural stop put to industry,
consequently to bartering. This, in the first book we have called the moral impossibility of augmenting numbers.

The next thing to be examined, is, how bartering grows into trade, properly so called and understood, according to the definition given of it above; how trade comes to be extended among men; how manufactures, more ornamental than useful, come to be established; and how men come to submit to labour, in order to acquire what is not absolutely necessary for them.

This, in a free society, I take to be chiefly owing to the introduction of money, and a taste for superfluities in those who possess it.

In ancient times, money was not wanting; but the taste for superfluities not being in proportion to it, the specie was locked up. This was the case in Europe four hundred years ago. A new taste for superfluity has drawn, perhaps, more money into circulation, from our own treasures, than from the mines of the new world. The poor opinion we entertain of the riches of our forefathers, is founded upon the modern way of estimating wealth, by the quantity of coin in circulation, from which we conclude, that the greatest part of the specie now in our hands must have come from America.

It is more, therefore, through the taste for superfluity, than in consequence of the quantity of coin, that trade comes to be established; and it is in consequence of trade only that we see industry carry things in our days to so high a pitch of refinement and delicacy. Let me illustrate this by comparing together the different operations of barter, sale, and commerce.

When reciprocal wants are supplied by barter, there is not the smallest occasion for money: this is the most simple of all combinations.

When wants are multiplied, bartering becomes (for obvious reasons) more difficult; upon this money is introduced. This is the common price of all things: it is a proper equivalent in the hands of those who feel a want, perfectly calculated to supply the occasions of those who, by industry, can relieve it. This operation of buying and selling is a little more complex than the former, but still we have here no idea of trade, because we have not introduced the merchant, by whose industry it is carried on.

Let this third person be brought into play, and the whole operation becomes clear. What before we called wants, is here represented by the consumer; what we called industry, by the manufacturer; what we called money, by the merchant. The merchant here represents the money, by substituting credit in its place; and as the money was invented to facilitate barter, so the merchant with his credit, is a new refinement upon the use of money. The merchant, I say, renders money still more effectual in performing the operations of buying and selling. This operation is trade: it relieves both parties of the whole trouble of transportation, and adjusting wants to wants, or wants to money. The merchant represents by turns both the consumer, the manufacturer, and the money. To the consumer he appears as the whole body of manufacturers; to the manufacturers, as the whole body of consumers; and to the one and the other class his credit supplies the use of money. This is sufficient at present for an illustration. I must now return to the simple operations of money in the hands of the two contracting parties, the buyer and the seller, in order to show how men come to submit to labour in order to acquire superfluities.

So soon as money is introduced into a country it becomes, as we have said above, an universal object of want to all the inhabitants. The consequence is, that the free hands of the
state, who before stopped working, because all their wants were provided for, having this new object of ambition before their eyes, endeavour, by refinements upon their labour, to remove the smaller inconveniences which result from a simplicity of manners. People, I shall suppose, who formerly knew but one sort of clothing for all seasons, willingly part with a little money to procure for themselves different sorts of apparel properly adapted to summer and inter, which the ingenuity of manufacturers, and their desire of getting money, may have suggested to their invention.

I shall not here pursue the gradual progress of industry, in bringing manufactures to perfection; nor interrupt my subject with any farther observations upon the advantages resulting to industry, from the establishment of civil and domestic liberty; but shall only suggest, that these refinements seem more generally owing to the industry and invention of the manufacturers (who by their ingenuity daily contrive means of softening or relieving inconveniences, which mankind seldom perceive to be such, till the way of removing them be contrived) than to the taste for luxury in the rich, who, to indulge their ease, engage the poor to become industrious.

Let any man make an experiment of this nature upon himself, by entering into the first shop. He will nowhere so quickly discover his wants as there. Every thing he sees appears either necessary, or at least highly convenient; and he begins to wonder (especially if he be rich) how he could have been so long without that which the ingenuity of the workman alone had invented, in order that from the novelty it might excite his desire; for when it is bought, he ill never once think more of it perhaps, nor ever apply it to the use for which it at first appeared so necessary.

Here then is a reason why mankind labour though not in want. They become desirous of possessing the very instruments of luxury, which their avarice or ambition prompted them to invent for the use of others.

What has been said represents trade in its infancy, or rather the materials with which this great fabric is built.

We have formed an idea of the wants of mankind multiplied even to luxury, and abundantly supplied by the employment of all the free hands set apart for that purpose. But if we suppose the workman himself disposing of his work, and purchasing with it food from the farmer, cloths from the clothier, and in general seeking for the supply of every want from the hands of the person directly employed for the purpose of relieving it; this will not convey an idea of trade, according to our definition.

Trade and commerce are an abbreviation of this long process; a scheme invented and set on foot by merchants, from a principle of gain, supported and extended among men, from a principle of general utility to every individual, rich or poor, to every society, great or small.

Instead of a pin-maker exchanging his pins with fifty different persons, for whose labour he has occasion, he sells all to the merchant for money or for credit; and, as occasion offers, he purchases all his wants, either directly from those who supply them, or from other merchants who deal with manufacturers in the same way his merchant dealt with him.

Another advantage of trade is, that industrious people in one part of the country, may supply customers in another, though distant. They may establish themselves in the most commodious places for their respective business, and help one another reciprocally, without making the distant parts of the country
suffer for want of their labour. They are likewise exposed to no avocation from their work, by seeking for customers.

Trade produces many excellent advantages; it marks out to the manufacturers when their branch is under or overstocked with hands. If it be understocked, they will find more demand than they can answer: if it be overstocked, the sale will be slow.

Intelligent men, in every profession, will easily discover when these appearances are accidental, and when they proceed from the real principles of trade. which are here the object of our inquiry.

Posts, and correspondence by letters, are a consequence of trade, by the means of which merchants are regularly informed of every augmentation or diminution of industry in every branch, in every part of the country. From this knowledge they regulate the prices they offer; and as they are many, they, from the principles of competition which we shall hereafter examine, serve as a check upon one another.

From the current prices, the manufacturers are as well informed as if they kept the correspondence themselves: the statesman feels perfectly where hands are wanting, and young people destined to industry, obey, in a manner, the call of the public, and fall naturally in to supply the demand.

Two great assistances to merchants, especially in the infancy of trade, are public markets for collecting the work of small dealers, and large undertakings in the manufacturing way by private hands. By these means the merchants come at the knowledge of the quantity of work in the market, as on the other hand the manufacturers learn, by the sale of the goods, the extent of the demand for them. These two things being justly known, the price of goods is easily fixed, as we shall presently see.

Public sales serve to correct the small inconveniences which proceed from the operations of trade. A set of manufacturers got all together into one town, and entirely taken up with their industry, are thereby as well informed of the rate of the market, as if every one of them carried thither his work; and upon the arrival of the merchant, who readily takes it off their hands, he has not the least advantage over them from his knowledge of the state of demand. This man both buys and sells in what is called wholesale (that is by large parcels) and from him retailers purchase, who distribute the goods to every consumer throughout the country. These last buy from wholesale merchants in every branch, that proportion of every kind of merchandize which is suitable to the demand of their borough, city, or province.

Thus, all inconveniences are prevented, at some additional cost to the consumer, who, for reasons we shall afterwards point out, must naturally reimburse the whole expence. The distance of the manufacturer, the obscurity of his dwelling, the caprice in selling his work, are quite removed; the retailer has all in his shop, and the public buys at a current price.

Chap. IV

How the Prices of Goods are determined by Trade

In the price of goods, I consider two things as really existing, and quite different from one another; to wit; the real value of the commodity, and the profit upon alienation. The intention of this chapter is to establish this distinction, and to shew how the operation of trade severally influences the standard of the one and the other; that is to say, how trade has the effect of rendering fixed and determinate, two things which
would otherwise be quite vague and uncertain.

I. The first thing to be known of any manufacture when it comes to be sold, is, how much of it a person can perform in a day, a week, a month, according to the nature of the work, which may require more or less time to bring it to perfection. In making such estimates, regard is to be had to what, upon an average only, a workman of the country in general may perform, without supposing him the best or the worst in his profession; or having any peculiar advantage or disadvantage as to the place where he works.

Hence the reason why some people thrive by their industry, and others not; why some manufactures flourish in one place and not in another.

II. The second thing to be known, is the value of the workman's subsistence and necessary expence, both for supplying his personal wants, and providing the instruments belonging to his profession, which must be taken upon an average as above; except when the nature of the work requires the presence of the workman in the place of consumption; for although some trades, and almost every manufacture, may be carried on in places at a distance, and therefore may fall under one general regulation as to prices, yet others there are which, by their nature, require the presence of the workman in the place of consumption; and in this case the prices must be regulated by circumstances relative to every particular place.

III. The third and last thing to be known, is the value of the materials, that is the first matter employed by the workman; and if the object of his industry be the manufacture of another, the same process of inquiry must be gone through with regard to the first, as with regard to the second: and thus the most complex manufactures may be at last reduced to the greatest simplicity. I have been more particular in this analysis of manufactures than was absolutely necessary in this place, that I might afterwards with the greater ease, point out the methods of diminishing the prices of them.

These three articles being known, the price of manufacture is determined. It cannot be lower than the amount of all the three, that is, than the real value; whatever it is higher, is the manufacturer's profit. This will ever be in proportion to demand, and therefore will fluctuate according to circumstances.

Hence appears the necessity of a great demand, in order to promote flourishing manufactures.

By the extensive dealings of merchants, and their constant application to the study of the balance of work and demand, all the above circumstances are known to them, and are made known to the industrious, who regulate their living and expence according to their certain profit. I call it certain, because under these circumstances they seldom overvalue their work, and by not overvaluing it, they are sure of a sale: a proof of this may be had from daily experience.

Employ a workman in a country where there is little trade or industry, he proportions his price always to the urgency of your want, or your capacity to pay; but seldom to his own labour. Employ another in a country of trade, he will not impose upon you, unless perhaps you be a stranger, which supposes your being ignorant of the value; but employ the same workman in a work not usual in the country, consequently not demanded, consequently notregulated as to the value, he will proportion his price as in the first supposition.

We may therefore conclude from what has been said, that in a country where trade is established, manufactures must flourish,
from the ready sale, the regulated price of work, and certain profit resulting from industry. Let us next inquire into the consequences of such a situation.

Chap. V

How foreign Trade opens to an industrious People, and the Consequences of it to the Merchants who set it on foot

The first consequence of the situation described in the preceding chapter, is, that wants are easily supplied, for the adequate value of the thing wanted.

The next consequence is, the opening of foreign trade under its two denominations of passive and active. Strangers and people of distant countries finding the difficulty of having their wants supplied at home, and the ease of having them supplied from this country, immediately have recourse to it. This is passive trade. The active is when merchants, who have executed this plan at home with success, begin to transport the labour of their countrymen into other regions, which either produce, or are capable of producing such articles of consumption, proper to be manufactured, as are most demanded at home; and consequently will meet with the readiest sale, and fetch the largest profits. Here then is the opening of foreign trade, under its two denominations of active and passive: but as we are at present considering the consequences of this new state of things with respect to the merchants, we shall take no farther notice, in this place, of that division: it will naturally come in afterwards.

What then are the consequences of this new commerce to our merchants, who have left their homes in quest of gain abroad? The first is, that arriving in any new country, they find themselves in the same situation, with regard to the inhabitants, as the workmen in the country of no trade, with regard to those who employed him; that is, they proportion the price of their goods to the eagerness of acquiring, or the capacity of paying, in the inhabitants, but never to their real value.

The first profits then, upon this trade, must be very considerable; and the demand from such a country will be high or low, great or small, according to the spirit, not the real wants of the people: for these in all countries, as has been said, must first be supplied by the inhabitants themselves, before they cease to labour.

If the people of this not-trading country (as we shall now call it) be abundantly furnished with commodities useful to the traders, they will easily part with them, at first, for the instruments of luxury and ease; but the great profit of the traders will insensibly increase the demand for the productions of their new correspondents; this will have the effect of producing a competition between themselves, and thereby of throwing the demand on their side, from the principles I shall afterwards explain. This is perpetually a disadvantage in traffic: the most it; and unpolished nations in the world quickly perceive the effects of are taught to profit of the discovery, in spite of the address of those who are the most expert in commerce.

The traders will, therefore, be very fond of falling upon every method and contrivance to inspire this people with a taste of refinement and delicacy. Abundance of fine presents, consisting of every instrument of luxury and superfluity, the best adapted to the genius of the people, will be given to the prince and leading men among them. Workmen will even be employed
at home to study the taste of the strangers, and to captivate their desires by every possible means. The more eager they are of presents, the more lavish the traders will be in bestowing and diversifying them. It is an animal put up to fatten, the more he eats the sooner he is fit for slaughter. When their taste for superfluity is fully formed, when the relish for their former simplicity is sophisticated, poisoned, and obliterated, then they are surely in the fetters of the traders, and the deeper they go, the less possibility there is of their getting out. The presents then will die away, having served their purpose; and if, afterwards, they are found to be continued, it will probably be to support the competition against other nations, who will incline to share the profits.

If, on the contrary, this not-trading nation does not abound with commodities useful to the traders, these will make little account of trading with them, whatever their turn may be; but if we suppose this country inhabited by a laborious people, who, having taken a taste for refinement from the traders, apply themselves to agriculture, in order to produce articles of subsistence, they will solicit the merchants to give them part of their manufactures in exchange for these; and this trade will undoubtedly have the effect of multiplying numbers in the trading nation. But if food cannot be furnished, nor any other branch of production found out to support the correspondence, the taste for refinement will soon die away, and trade will stop in this quarter.

Had it not been for the furs in those countries adjacent to Hudson's Bay, and in Canada, the Europeans never would have thought of supplying instruments of luxury to those nations; and if the inhabitants of those regions had not taken a taste for the instruments of luxury furnished to them by the Europeans, they never would have become so indefatigable nor so dexterous hunters. At the same time we are not to suppose, that ever these Americans would have come to Europe in quest of our manufactures. It is therefore owing to our merchants, that those nations are become in any degree fond of refinement; and this taste, in all probability, will not soon exceed the proportion of the productions of their country. From these beginnings of foreign trade it is easy to trace its increase.

One step towards this, is the establishing correspondences in foreign countries; and these are more or less necessary in proportion as the country where they are established is more or less polished or acquainted with trade. They supply the want of posts, and point out to the merchants what proportion the productions of the country bear to the demand of the inhabitants for manufactures. This communicates an idea of commerce to the not-trading nation, and they insensibly begin to fix a determinate value upon their own productions, which perhaps bore no determinate value at all before.

Let me trace a little the progress of this refinement in the savages, in order to shew how it has the effect of throwing the demand upon the traders, and of creating a competition among them, for the productions of the new country.

Experience shews, that in a new-discovered country, merchants constantly find some article or other of its productions, which turns out to a great account in commerce; and we see that the longer such a trade subsists, and the more the inhabitants take a taste for European manufactures, the more their own productions rise in their value, and the less profit is made by trading with them, even in cases where the trade is carried on by companies; which is a very wise institution for one reason, that it cuts off
a competition between our merchants.

This we shall shew, in its proper place, to be the best means of keeping prices low in favour of the nation; however it may work a contrary effect with respect to individuals who must buy from these monopolies.

When companies are not established, and when trade is open, our merchants, by their eagerness to profit of the new trade, betray the secrets of it, they enter into competition for the purchase of the foreign produce, and this raises prices and favours the commerce of the most ignorant savages.

Some account for this in a different manner. They allege that it is not this competition which raises prices; because there is also a competition among the savages, which of them shall get the merchandise; and this may be sufficient to counter-balance the other, but in proportion as the quantity of goods demanded by the savages, as an exchange for the produce of their country, becomes greater, a less quantity of this produce must be given for every parcel of the goods.

To this I answer, That I cannot admit this apparent reason to be consistent with the principles of trade, however ingenious the conceit may be.

The merchant constantly considers his own profit in parting with his goods, and is not influenced by the reasons of expediency which the savages may find, to offer him less than formerly; for were this principle of proportion admitted generally, the price of merchandise would always be at the discretion of the buyers.

The objection here stated is abundantly plain; but it must be resolved in a very different manner. Here are two solutions:

First, Prices, I have said, are made to rise, according as demand is high, not according as it is great. Now, in the objection, it is said, that, in proportion as the demand is great, a less proportion of the equivalent must go to every parcel of the merchandise; which I apprehend to be false; and this shews the necessity of making a distinction between the high and the great demand, things entirely different in trade, and which communicate quite different ideas.

Secondly, In all trade there is an exchange, and in all exchange, we have said, there is a reciprocal demand implied: it must therefore be exactly inquired into, on which hand the competition between the demanders is found; that is to say, on which hand it is strongest; according to the distinction in the second chapter.

If the inhabitants of the country be in competition for the manufactures, goods will rise in their price most undoubtedly, let the quantity of the produce they have to offer be large or small; but so soon as these prices rise above the faculties, or desire of buying, in certain individuals, their demand will stop, and their equivalent will be prevented from coming into commerce. This will disappoint the traders; and therefore, as their gains are supposed to be great, either a competition will take place among themselves, who shall carry off the quantity remaining, supposing them to have separate interests; or, if they are united, they may, from a view of expediency, voluntarily sink their price, in order to bring it within the compass of the faculties, or intention, to buy in those who are still possessed of a portion of what they want.

It is from the effects of competition among sellers that I apprehend prices are brought down, not from any imaginary proportion of quantity to quantity in the market. But of this more afterwards, in its proper place.
So soon as the price of manufactures is brought as low as possible, in the new nation; if the surplus of their commodities does not suffice to purchase a quantity of manufactures proportioned to their wants, this people must begin to labour: for labour is the necessary consequence of want, real or imaginary; and by labour it will be supplied.

When this comes to be the case, we immediately find two trading nations instead of one; the balance of which trade will always be in favour of the most industrious and frugal; as shall be fully explained in another place.

Let me now direct my inquiry more particularly towards the consequences of this new state of things produced by commerce, relative to the not-trading nation, in order to shew the effect of a passive foreign trade. I shall spare no pains in illustrating, upon every occasion, as I go along, the fundamental principles of commerce, demand, and competition, even perhaps at the expence of appearing tiresome to some of my readers.

Chap. VI

Consequences of the Introduction of a passive Foreign Trade among a People who live in Simplicity and Idleness

We now suppose the arrival of traders, all in one interest, with instruments of luxury and refinement, at a port in a country of great simplicity of manners, abundantly provided by nature with great advantages for commerce, and peopled by a nation capable of adopting a taste for superfluities.

The first thing the merchants do, is to expose their goods, and point out the advantages of many things, either agreeable or useful to mankind in general, such as wines, spirits, instruments of agriculture, arms, and ammunition for hunting, nets for fishing, manufactures for clothing, and the like. The advantages of these are presently perceived, and such commodities are eagerly sought after. The natives on their side produce what they most esteem, generally something superfluous or ornamental. The traders, after examining all circumstances, determine the object of their demand, giving the least quantity possible in return for this superfluity, in order to impress the inhabitants with a high notion of the value of their own commodities; but as this parsimony may do more hurt than good to their interest, they are very generous in making presents, from the principles mentioned above.

When the exchange is completed, and the traders depart, regret is commonly mutual; the one and the other are sorry that the superfluities of the country fall short. A return is promised by the traders, and assurances are given by the natives of a better provision another time.

What are the first consequences of this revolution? Is it not evident, that, in order to supply an equivalent for this new want, more hands must be set to work than formerly? And it is evident also, that this augmentation of industry will not essentially increase numbers; as was supposed to be the effect of it through the whole train of our reasoning in the first book. Why? Because there the produce of the industry was supposed to be consumed at home; and here it is intended to be exported. But if we can find out any additional consumption at home even implied by this new trade, I think it will have the effect of augmenting numbers. An example will make this plain.

Let me suppose the superfluity of this country to be the skins of wild beasts, not proper for food; the manufacture sought
for, brandy. The brandy is sold for furs. He who has furs, or he who can spare time to hunt for them, will drink brandy in proportion: but I cannot find out any reason to conclude, from this simple operation, that one man more in the country must necessarily be fed, (for I have taken care to suppose, that the flesh of the animals is not proper for food) or that any augmentation of agriculture must of consequence ensue from this new traffic.

But let me throw in a circumstance which may imply an additional consumption at home, and then examine the consequences.

A poor creature, who has no equivalent to offer for food, who is miserable, and ready to perish for want of subsistence, goes a hunting, and kills a wolf; he comes to a farmer with the skin, and says; you are well fed, but you have no brandy; if you will give me a loaf I will give you this skin, which the strangers are so fond of, and they will give you brandy. But, says the farmer, I have no more bread than what is sufficient for my own family. As for that, replies the other, I will come and dig in your ground, and you and I will settle our account as to the small quantity I desire of you. The bargain is made; the poor fellow gets his loaf, and lives at least; perhaps he marries, and the farmer gets a dram. But had it not been for this dram, (that is, this new want,) which was purchased by the industry of this poor fellow, by what argument could he have induced the farmer to part with a loaf?

I here exclude the sentiment of charity. This alone, as I have often observed, is a principle of multiplication, and if it was admitted here it would ruin all my supposition; but as true it is, on the other hand, that could the poor fellow have got bread by begging, he would not probably have gone a-hunting.

Here then it appears, that the very dawning of trade, in the most unpolished countries, implies a multiplication. This is enough to point out the first step, and to connect the subject of our present inquiries with what has been already discussed in relation to other circumstances. I proceed.

So soon as all the furs are disposed of, and a taste for superfluity introduced, both the traders and the natives will be equally interested in the advancement of industry in this country. Many new objects of profit for the first will be discovered, which the proper employment of the inhabitants, in reaping the natural advantages of their soil and climate, will make effectual. The traders will therefore endeavour to set on foot many branches of industry among the savages, and the allurements of brandy, arms, and clothing, will animate these in the pursuit of them. Let me here digress for a few lines.

If we suppose slavery to be established in this country, then all the slaves will be set to work, in order to provide furs and other things demanded by the traders, that the masters may thereby be enabled to indulge themselves in the superfluities brought to them by the merchants. When liberty is the system, every one, according to his disposition, becomes industrious, in order to procure such enjoyments for himself.

In the first supposition, it is the head of the master which conducts the labour of the slave, and turns it towards ingenuity: in the second, every head is at work, and every hand is improving in dexterity. Where hands therefore are principally necessary, the slaves have the advantage; where heads are principally necessary, the advantage lies in favour of the free. Set a man to labour at so much a day, he will go on at a regular rate, and never seek to improve his method: let him be hired by the piece,
he will find a thousand expedients to extend his industry. This is exactly the difference between the slave and the free man. From this I account for the difference between the progress of industry in ancient and modern times. Why was a peculium given to slaves, but to engage them to become dextrous? Had there been no peculium and no libertini, or free men, who had been trained to labour, there would have been little more industry any where, than there was in the republic of Lycurgus, where, I apprehend, neither the one or the other was to be found. I return.

When once this revolution is brought about; when those who formerly lived in simplicity become industrious. Matters put on a new face. Is not this operation quite similar to that represented in the fifth chapter of the first book? There I found the greatest difficulty, in shewing how the mutual operations of supplying food and other wants could have the effect of promoting population and agriculture, among a people who were supposed to have no idea of the system proposed to be put in execution. Here the plan appears familiar and easy. The difference between them seems to resemble that of a child's learning a language by grammar, or learning it by the ear in the country where it is spoken. In the first case, many throw the book aside, but in the other none ever fail of success.

I have said, that matters put on a new face; that is to say, we now find two trading nations instead of one, with this difference, however, that as hitherto we have supposed the merchants all in one interest, the compound demand, that is, the competition of the buyers, has been, and must still continue on the side of the natives. This is a great prejudice to their interest, but as it is not supposed sufficient to check their industry, nor to restrain their consumption of the manufactures, let me here examine a little more particularly the consequences of the principle of demand in such a situation; for although I allow, that it can never change sides, yet it may admit of different modifications, and produce different effects, as we shall presently perceive.

The merchants we suppose all in one interest, consequently there can be no competition among them; consequently no check can be put upon their raising their prices, as long as the prices they demand are complied with. So soon as they are raised to the full extent of the abilities of the natives, or of their inclination to buy, the merchants have the choice of three things, which are all perfectly in their option, and the preference to be given to the one or the other depends entirely upon themselves, and upon the circumstances I am going to point out.

First, they may support the high demand; that is, not lower their price; which will preserve a high estimation of the manufactures in the opinion of the inhabitants, and render the profits upon their trade the greatest possible. This part they may possibly take, if they perceive the natives doubling their diligence, in order to become able, in time, to purchase considerable cargoes at a high value; from which supposition is implied a strong disposition in the people to become luxurious, since nothing but want of ability prevents them from complying with the highest demand: but still another circumstance must concur, to engage the merchants not to lower their price. The great proportion of the goods they seek for, in return, must be found in the hands of a few. This will be the case if slavery be established; for then there must be many poor, and few rich: and they are commonly the rich consumers who proportion the price they offer, rather to their desires, than to the value of the
The second thing which may be done is, to open the door to a great demand; that is, to lower their prices. This will sink the value of the manufactures in the opinion of the inhabitants, and render profits less in proportion, although indeed, upon the voyage, the profits may be greater.

This part they will take, if they perceive the inhabitants do not incline to consume great quantities of the merchandize at a high value, either from want of abilities or inclination; and also, if the profits upon the trade depend upon a large consumption, as is the case in merchandize of a low value, and suited chiefly to the occasions of the lower sort. Such motives of expediency will be sufficient to make them neglect a high demand, and prefer a great one; and the more, when there is a likelihood that the consumption of low-priced goods in the beginning may beget a taste for others of a higher value, and thus extend in general the taste of superfluity.

A third part to be taken, is the least politic, and perhaps the most familiar. It is to profit by the competition between the buyers, and encourage the rising of demand as long as possible; when this comes to a stop, to make a kind of auction, by first bringing down the prices to the level of the highest bidders, and so to descend by degrees, in proportion as demand sinks. Thus we may say with propriety, according to our definitions of demand, that it commonly becomes great, in proportion as prices sink. By this operation, the traders will profit as much as possible, and sell off as much of their goods as the profits will permit.

I say, this plan, in a new discovered country, is not politic, as it both discovers a covetousness and a want of faith in the merchants, and also throws open the secrets of their trade to those who ought to be kept ignorant of them.

Let me next suppose, that the large profits of our merchants shall be discovered by others, who arrive at the same ports in a separate interest, and who enter into no combination with the first, which might prevent the natural effects of competition.

Let the state of demand among the natives be supposed the same as formerly, both as to height and greatness, in consequence of the operation of the different principles, which might have induced our merchants to follow one or other of the plans we have been describing; we must however still suppose, that they have been careful to preserve considerable profits upon every branch.

If we suppose the inhabitants to have increased in numbers, wealth, and taste for superfluity, since the last voyage, demand will be found rather on the rising hand. Upon the arrival of the merchants in competition with the former, both will offer to sale; but if both stand to the same prices, it is very natural to suppose, that the former dealers will obtain a preference; as, ceteris paribus, it is always an advantage to know and to be known. The last comers, therefore, have no other way left to counterbalance this advantage, but to lower their prices.

This is a new phaenomenon: here the fall of prices is not voluntary as formerly; not consented to from expediency; not owing to a failure of demand, but to the influence of a new principle of commerce, to wit, a double competition. This I shall now examine with all the care I am capable of.
When competition is much stronger on one side of the contract than on the other, I call it simple, and then it is a term
synonymous with what I have called compound demand. This is the
species of competition which is implied in the term high demand,
or when it is said, that demand raises prices.

Double competition is, when, in a certain degree, it takes
place on both sides of the contract at once, or vibrates
alternately from one to the other. This is what restrains prices
to the adequate value of the merchandize.

I frankly confess I feel a great want of language to express
my ideas, and it is for this reason I employ so many examples,
the better to communicate certain combinations of them, which
otherwise would be inexplicable.

The great difficulty is to distinguish clearly between the
principles of demand, and those of competition; here then follows
the principal differences between the two, relatively to the
effects they severely produce in the mercantile contract of
buying and selling, which I here express shortly by the word
contract.

Simple demand is what brings the quantity of a commodity to
market. Many demand, who do not buy; many offer, who do not sell.
This demand is called great or small; it is said to increase, to
augment to swell; and is expressed by these and other synonymous
terms, which mark an augmentation or diminution of quantity. In
this species, two people never demand the same thing, but a part
of the same thing, or things quite alike.

Compound demand is the principle which raises prices, and
never can make them sink; because in this case more than one
demands the very same thing. It is solely applicable to the
buyers, in relation to the price they offer. This demand is
called high or low, and is said to rise, to fall, to mount, to
sink, and is expressed by these and other synonymous terms.

Simple competition, when between buyers, is the same as
compound or high demand, but differs from it so far, as this may
equally take place among sellers, which compound demand cannot,
and then it works a contrary effect: it makes prices sink, and is
synonymous with low demand: it is this competition which
overturns the balance of work and demand; of which afterwards.

Double competition is what is understood to take place in
almost every operation of trade; it is this which prevents the
excessive rise of prices; it is this which prevents their
excessive fall. While double competition prevails, the balance is
perfect, trade and industry flourish.

The capital distinction, therefore, between the terms demand
and competition is, that demand is constantly relative to the
buyers, and when money is not the price, as in barter, then it is
relative to that side upon which the greatest competition is
found.

We therefore say, with regard to prices, demand is high or
low. With regard to the quantity of merchandize, demand is great
or small. With regard to competition, it is always called great
or small, strong or weak.

Competition, I have said, is, with equal propriety,
applicable to both parties in the contract. A competition among
buyers is a proper expression: a competition among sellers, who
have the merchandize, is full as easily understood, though it be
not quite so striking, for reasons which an example will make
plain.

You come to a fair where you find a great variety of every
kind of merchandize, in the possession of different merchants.
These, by offering their goods to sale, constitute a tacit
competition; every one of them wishes to sell in preference to
another, and at the same time with the best advantage to himself.
The buyers begin, by cheapning at every shop. The first price
asked marks the covetousness of the seller; the first price
offered, that of the buyer. From this operation, I say,
competition begins to work its effects on both sides, and so
becomes double. The principles which influence this operation are
now to be deduced.
It is impossible to suppose the same degree of eagerness,
either to buy or to sell, among several merchants; because the
degree of eagerness I take to be exactly in proportion to their
view of profit; and as this must necessarily be influenced and
regulated by different circumstances, that buyer, who has the
best prospect of selling again with profit, obliges him, whose
prospect is not so good, to content himself with less; and that
seller, who has bought to the best advantage, obliges him, who
has paid dearer for the merchandize, to moderate his desire of
gain.
It is from these principles, that competition among buyers
and sellers must take place. This is what confines the
fluctuation of prices within limits which are compatible with the
reasonable profits of both buyers and sellers; for, as has been
said, in treating of trade, we must constantly suppose the whole
operation of buying and selling to be performed by merchants; the
buyer cannot be supposed to give so high a price as that which he
expects to receive, when he distributes to the consumers, nor can
the seller be supposed to accept of one so low as that which he
paid to the manufacturer. This competition is properly called
double, because of the difficulty to determine upon which side it
stands; the same merchant may have it in his favour upon certain
articles, and against him upon others; it is continually in
vibration, and the arrival of every post may less or more pull
down the heavy scale.
In every transaction between merchants, the profit resulting
from the sale must be exactly distinguished from the value of the
merchandize. The first may vary, the last never can. It is this
profit alone which can be influenced by competition; and it is
for this reason we find such uniformity everywhere in the prices
of goods of the same quality.
The competition between sellers does not appear so striking,
as that between buyers; because he who offers to sale, appears
passive only in the first operation; whereas the buyers present
themselves one after another; they make a demand, and when the
merchandize is refused to one at a certain price, a second either
offers more, or does not offer at all: but so soon as another
seller finds his account in accepting the price the first had
refused, then the first enters into competition, provided his
profits will admit his lowering the first price; and thus
competition takes place among the sellers, until the profits upon
their trade prevent prices from falling lower.
In all markets, I have said, this competition is varying,
though insensibly, on many occasions; but in others, the
vibrations are very perceptible. Sometimes it is found strongest
on the side of the buyers, and in proportion as this grows, the
competition between the sellers diminishes. When the competition
between the former has raised prices to a certain standard, it
comes to a stop; then the competition changes sides, and takes
place among the sellers, eager to profit of the highest price.
This makes prices fall, and according as they fall, the
competition among the buyers diminishes. They still wait for the
lowest period. At last it comes; and then perhaps some new
circumstance, by giving the balance a kick, disappoints their hopes. If therefore it ever happens, that there is but one interest upon one side of the contract, as in the example in the former chapter, where we supposed the sellers united, you perceive, that the rise of the price, occasioned by the competition of the buyers, and even its coming to a stop, could not possibly have the effect of producing any competition on the other side; and therefore, if prices come afterwards to sink, the fall must have proceeded from the prudential considerations of adapting the price to the faculties of those, who, from the height of it, had withdrawn their demand.

From these principles of competition, the forestalling of markets is made a crime, because it diminishes the competition which ought to take place between different people, who have the same merchandize to offer to sale. The forestaller buys all up, with an intention to sell with more profit, as he has by that means taken other competitors out of the way, and appears with a single interest on one side of the contract, in the face of many competitors on the other. This person is punished by the state, because he has prevented the price of the merchandize from becoming justly proportioned to the real value; he has robbed the public, and enriched himself; and in the punishment, he makes restitution. Here occur two questions to be resolved, for the sake of illustration.

Can competition among buyers possibly take place, when the provision made is more than sufficient to supply the quantity demanded? On the other hand, can competition take place among the sellers, when the quantity demanded exceeds the total provision made for it?

I think it may in both cases; because in the one and the other, there is a competition implied on one side of the contract, and the very nature of this competition implies a possibility of its coming on the other, provided separate interests be found upon both sides. But, to be more particular:

First, Experience shews, that however justly the proportion between the demand and the supply may be determined in fact, it is still next to impossible to discover it exactly, and therefore buyers can only regulate the prices they offer, by what they may reasonably expect to sell for again. The sellers, on the other hand, can only regulate the prices they expect, by what the merchandize has cost them when brought to market. We have already shewn, how, under such circumstances, the several interests of individuals affect each other, and make the balance vibrate.

Secondly, The proportion between the supply and the demand is seldom other than relative among merchants, who are supposed to buy and sell, not from necessity, but from a view to profit. What I mean by relative is, that their demand is great or small, according to prices: there may be a great demand for grain at 35 shillings per quarter, and no demand at all for it at 40 shillings, I say, among merchants.

Here I must observe, how essential it is, to attend to the smallest circumstance in matters of this kind. The circumstance I here have in my eye, is the difference I find in the effect of competition, when it takes place purely among merchants on both sides of the contract, and when it happens, that either the consumers mingle themselves with the merchant-buyers, or the manufacturers, that is, the furnishers mingle themselves with the merchant-sellers. This combination I shall illustrate, by the solution of another question, and then conclude my chapter with a few reflections upon the whole.

Can there be no case formed, where the competition upon one
side may subsist, without a possibility of its taking place on the other, although there should be separate interests upon both?

I answer. The case is hardly supposable among merchants who buy and sell with a view to profit; but it is absolutely supposable, and that is all, when the direct consumers are the buyers; when the circumstances of one of the parties is perfectly known; and when the competition is so strong upon one side, as to prevent a possibility of its becoming double, before the whole provision is sold off, or the demand satisfied. Let me have recourse to examples.

Grain arriving in a small quantity, at a port where the inhabitants are starving, produces so great a competition among the consumers, who are the buyers, that their necessity becomes evident; all the grain is generally bought up before prices can rise so high as to come to a stop; because nothing but want of money, that is, an impossibility of complying with the prices demanded by the merchants, can restrain them: but if you suppose, even here, that prices come naturally to a stop; or that, after some time, they fall lower, from prudential considerations, then there is a possibility of a competition taking place among the sellers, from the principles above deduced. If, on the contrary, the stop is not natural, but occasioned by the interposition of the magistrate, from humanity, or the like, there will be no competition, because then the principles of commerce are suspended; the sellers are restrained on one side, and they restrain the buyers on the other. Or rather, indeed, it is the magistrate, or compassion, who in a manner fixes the price, and performs the office of both buyer and seller.

A better example still may be found, in a competition among sellers; where it may be so strong, as to render a commodity in a manner of no value at all, as in the case of an uncommon and unexpected draught of fish, in a place of small consumption, when no preparations have been made for salting them. There can then be no competition among the buyers; because the market cannot last, and they find themselves entirely masters, to give what price they please, being sure the sellers must accept of it, or lose their merchandize. In the first example, humanity commonly stops the activity of the principle of competition; in the other it is stopt by a certain degree of fair-dealing, which forbids the accepting of a merchandize for nothing.

In proportion therefore as the rising of prices can stop demand, or the sinking of prices can increase it, in the same proportion will competition prevent either the rise or the fall from being carried beyond a certain length: and if such a case can be put, where the rising of prices cannot stop demand, nor the lowering of prices augment it, in such cases double competition does not subsist; because these circumstances unite the most separate interests of buyers and sellers in the mercantile contract, and when upon one side there is no separate interest, there can then be no competition.

From what has been said, we may form a judgment of the various degrees of competition. A book not worth a shilling, a fish of a few pounds weight, are often sold for considerable sums. The buyers here are not merchants. When an ambassador leaves a court in a hurry, his effects are sold for less than the half of their value: he is no merchant, and his situation is known. When, at a public market, there are found consumers, who buy their provision, or manufacturers, who dispose of their goods for present subsistence; the merchants, who are respectively upon the opposite side of the contract to these, profit of their competition; and those who are respectively upon the same side
with them, stand by with patience, until they have finished their
business. Then matters come to be carried on between merchant and
merchant, and then, I allow, that profits may rise and fall, in
the proportion of quantity to demand; that is to say, if the
provision is less than the demand, the competition among the
demanders, or the rise of the price, will be in the compound
proportion of the falling short of the commodity, and of the
prospect of selling again with profit. It is this proportion
which regulates the competition, and keeps it within bounds. It
can affect the profits only upon the transaction; the intrinsic
value of the commodity stands immoveable: nothing is ever sold
below the real value; nothing is ever bought for more than it may
probably bring. I mean in general. Whereas so soon as consumers
and needy manufacturers mingle in the operation, all proportion
is lost. The competition between them is too strong for the
merchants; the balance vibrates by jerks. In such markets
merchants seldom appear: the principal objects there, are the
fruits and productions of the earth, and articles of the first
necessity for life, not manufactures strictly so called. A poor
fellow often sells, to purchase bread to eat; not to pay what he
did eat, while he was employed in the work he disposes of. The
consumer often measures the value of what he is about to
purchase, by the weight of his purse, and his desire to consume.

As these distinctions cannot be conveyed in the terms by
which we are obliged to express them, and as they must frequently
be implied, in treating of matters relating to trade and
industry, I thought the best way was, to clear up my own ideas
concerning them, and to lay them in order before my reader,
before I entered farther into my subject.

All difference of opinion upon matters of this nature
proceeds, as I believe, from our language being inadequate to
express our ideas; from our inattention in using terms, which
appear synonymous, and are not so; and from our natural
propensity to include, under general rules, things which upon
some occasions, common reason requires to be set asunder.

Chap. VIII

Of what is called Expence, Profit, and Loss

As we have been employed in explaining of terms, it will not
be amiss to say a word concerning those which stand in the title
of this chapter.

The term expence, when simply expressed, without any
particular relation, is always understood to be relative to
money. This kind I distinguish under the three heads, of private,
public, and national.

1. Private expence is, what a private person, or private
society, lays out, either to provide articles of consumption, or
something more permanent, which may be conducive to their ease,
convenience, or advantage. Thus we say, a large domestic expence,
relatively to one who spends a great income. We say, a merchant
has been at great expence for magazines, for living, for clerks,
&c. but never that he has been at any in buying goods. In the
same way a manufacturer may expend for building, machines,
horses, and carriages, but never for the matter he manufactures.
When a thing is bought, in order to be sold again, the sum
employed is called money advanced; when it is bought not to be
sold, it may be said to be expended.

2. Public expence is, the employment of that money, which has
been contributed by individuals, for the current service of the state. The contribution, or gathering it together, represents the effects of many articles of private expence; the laying it out when collected, is public expence.

3. National expence, is what is expended out of the country: this is what diminishes national wealth. The principal distinction to be here attended to, is between public expence, or the laying out of public money, and national expence, which is the alienating the nation's wealth in favour of strangers. Thus the greatest public expence imaginable, may be no national expence; because the money may remain at home. On the other hand, the smallest public, or even private expence, may be a national expence, because the money may go abroad.

Profit, and loss, I divide into positive, relative, and compound. Positive profit, implies no loss to any body; it results from an augmentation of labour, industry, or ingenuity, and has the effect of swelling or augmenting the public good.

Positive loss, implies no profit to any body; it is what results from the cessation of the former, or of the effects resulting from it, and may be said to diminish the public good.

Relative profit, is what implies a loss to somebody, it marks a vibration of the balance of wealth between parties, but implies no addition to the general stock.

Relative loss, is what, on the contrary, implies a profit to somebody; it also marks a vibration of the balance, but takes nothing from the general stock.

The compound is easily understood; it is that species of profit and loss which is partly relative, and partly positive. I call it compound, because both kinds may subsist inseparably in the same transaction.

Chap. IX

The general Consequences resulting to a trading Nation, upon the opening of an active foreign Commerce

Did I not intend to give myself to very general topics in this chapter I might in a manner exhaust the whole subject of modern oeconomy under this title; for I apprehend that the whole system of modern politics is founded upon the basis of an active foreign trade.

A nation which remains passive in her commerce, is at the mercy of those who are active, and must be greatly favoured, indeed, by natural advantages, or by a constant flux of gold and silver from her mines, to be able to support a correspondence, not entirely hurtful to the augmentation of her wealth.

These things shall be more enlarged upon as we go along: the point in hand, is to consider the consequences of this trade, relatively to those who are actors in the operation.

When I look upon the wide field which here opens to my view, I am perplexed with too great a variety of objects. In one part, I see a decent and comely beginning of industry, wealth flowing gently in, to recompence ingenuity; numbers augmenting, and every one becoming daily more useful to another; agriculture proportionally extending itself; no violent revolutions; no exorbitant profits; no insolence among the rich; no excessive misery among the poor; multitudes employed in producing; great oeconomy upon consumption; and all the instruments of luxury, daily produced by the hands of the diligent, going out of the country for the service of strangers; not remaining at home for the gratification of sensuality. At last augmentations come
insensibly to a stop. Then these rivers of wealth, which were in brisk circulation through the whole world, and which returned to this trading nation as blood returns to the heart, to be thrown out again only by new pulsations, begin to be obstructed in their course; and flowing abroad more slowly than before, come to form stagnations at home. These, impatient of restraint, soon burst out into domestic circulation. Upon this cities swell in magnificence of buildings; the face of the country is adorned with palaces, and becomes covered with groves; luxury shines triumphant in every part; inequality becomes more striking to the eye; and want and misery appear more deformed, from the contrast; even fortune grows more whimsical in her inconstancy. the beggar of the other day, now rides in his coach; and he who was born in a bed of state, is seen to die in an alms-house. Such are the effects of great domestic circulation.

The statesman looks about with amazement; he, who was wont to consider himself as the first man in the society in every respect, perceives himself eclipsed by the lustre of private wealth, which avoids his grasp when he attempts to seize it. This makes his government more complex and more difficult to be carried on; he must now avail himself of art and address as well as of power and authority. By the help of cajoling and intrigues, he gets a little into debt; this lays a foundation for public credit, which, growing by degrees, and in its progress assuming many new forms, becomes, from the most tender beginnings, a most formidable monster, striking terror into those who cherished it in its infancy. Upon this, as upon a triumphant war-horse, the statesman gets a-stride, he then appears formidable anew; his head turns giddy; he is choaked with the dust he has raised; and at the moment he is ready to fall, he finds, to his utter astonishment and surprise, a strong monied interest, of his own creating, which, instead of swallowing him up as he apprehended, flies to his support. Through this he gets the better of all opposition, he establishes taxes, multiplies them, mortgages his fund of subsistence, either becomes a bankrupt, and rises again from his ashes; or if he be less audacious, he stands trembling and tottering for a while on the brink of the political precipice. From one or the other of these perilous situations, he begins to discover an endless path which, after a multitude of windings, still returns into itself, and continues an equal course through this vast labyrinth: but of this last part, more in the fourth book.

It is now full time to leave off rhapsody, and return to reasoning and cool inquiry, concerning the more immediate and more general effects and revolutions produced by the opening of a foreign trade in a nation of industry.

The first and most sensible alteration will be an increase of demand for manufacturers, because by supplying the wants of strangers, the number of consumers will now be considerably augmented. What again will follow upon this, must depend upon circumstances.

If this revolution in the state of demand should prove too violent, the consequence of it will be to raise demand; if it should prove gradual, it will increase it. I hope this distinction is well understood, and that the consequence appears just: for, if the supply do not increase in proportion to the demand, a competition will ensue among the demanders; which is the common effect of such sudden revolutions. If, on the other hand, a gentle increase of demand should be accompanied with a proportional supply, the whole industrious society will grow in vigour, and in wholesome stature, without being sensible of any
great advantage or inconvenience; the change of their circumstances will even be imperceptible.

The immediate effects of the violent revolution will, in this example, be flattering to some, and disagreeable to others. Wealth will be found daily to augment, from the rising of prices, in many branches of industry. This will encourage the industrious classes, and the idle consumers at home will complain. I have already dwelt abundantly long upon the effects resulting from this to the lower classes of the people, in providing them with a certain means of subsistence. Let me now examine in what respect the higher classes will be likewise made to feel the good effects of this general change, although at first they may suffer a temporary inconvenience from it.

Farmers, as has been observed, will have a greater difficulty in finding servants, who, instead of labouring the ground, will choose to turn themselves to manufactures. This we have considered in the light of purging the lands of superfluous mouths; but every consequence in this great chain of politics draws other consequences after it, and as they follow one another, things put on different faces, which affect classes differently. The purging of the land is but one of the first; here follows another.

The desertion of the hands employed in a trifling agriculture will at first, no doubt, embarrass the farmers, and raise the price of wages; but in a little time every thing becomes balanced in a trading nation, because here every industrious man must advance prosperity, in spite of all combinations of circumstances.

In the case before us, the relative profits upon farming must soon become greater than formerly, because of the additional expence of servants which must affect the whole class of farmers; consequently, this additional expence, instead of turning out to be a loss to either landlord or farmer, will, after some little time, turn out to the advantage of both: because the produce of the ground, being indispensably necessary to every body, must in every article increase in its value, in proportion to the expence of raising it. Thus in a short time accounts will be nearly balanced on all hands; that is to say, the same proportion of wealth will, cateris paribus, continue the same among the industrious. I say among the industrious; for those who are either idle, or negligent, will be great losers.

A proprietor of land, inattentive to the causes of his farmer's additional expence, may very imprudently suffer his rents to fall, instead of assisting him on a proper occasion, in order to make them afterwards rise the higher.

Those who live upon a determinate income in money, and who are nowise employed in traffic, nor in any scheme of industry, will, by the augmentation of prices, be found in worse circumstances than before.

In a trading nation every man must turn his talents to account, or he will undoubtedly be left behind in this universal emulation, in which the most industrious, the most ingenious, and the most frugal will constantly carry off the prize.

This consideration ought to be a spur to every body. The richest men in a trading nation have no security against poverty, I mean proportional poverty, for though they diminish nothing of their income, yet by not increasing it in proportion to others, they lose their rank in wealth, and from the first class in which they stood, they will slide insensibly down to a lower.

This is one consequence of an additional beneficial trade, that it raises demand and increases wealth; but if we suppose no
proportional augmentation of supply, it will prove at best but an airy dream which lasts for a moment, and when the gilded scene is passed away, numberless are the inconveniences which are seen to follow.

I shall now point out the natural consequences of this augmentation of wealth drawn from foreign nations, when, in proportion to the augmentation of mouths, and of the demand for the produce of industry, the statesman remains inattentive to increase the supply both of food and manufactures.

In such a situation profits will daily swell, and every scheme for reducing them within the bounds of moderation, will be looked upon as a hurtful and unpopular measure: be it so; but let us examine the consequences.

We have said, that the rise of demand for manufactures naturally increases the value of work: now I must add, that under such circumstances, the augmentation of riches, in a country, either not capable of improvement as to the soil, or where precautions have not been taken for facilitating a multiplication of inhabitants, by the importation of subsistence, will be productive of the most calamitous consequences.

On one side, this wealth will effectually diminish the mass of the food before produced; and on the other, will increase the number of useless consumers. The first of these circumstances will raise the demand for food; and the second will diminish the number of useful free hands, and consequently raise the price of manufactures: here are shortly the outlines of this progress.

The more rich and luxurious a people are, the more delicate they become in their manner of living; if they fed on bread formerly, they will now feed on meat; if they fed on meat, they will now feed on fowl. The same ground which feeds a hundred with bread, and a proportional quantity of animal food, will not maintain an equal number of delicate livers. Food must then become more scarce; demand for it rises; the rich are always the strongest in the market; they consume the food, and the poor are forced to starve. Here the wide door to modern distress opens, to wit, a hurtful competition for subsistence. Farther, when a people become rich, they think less of oeconomy; a number of useless servants are hired, to become an additional dead weight on consumption; and when their starving countrymen cannot supply the extravagance of the rich so cheaply as other nations, they either import instruments of foreign luxury, or seek to enjoy them out of their own country, and thereby make restitution of their gains.

Is it not therefore evident, that if, before things come to this pass, additional subsistence be not provided by one method or other, the number of inhabitants must diminish; although riches may daily increase by a balance of additional matter, supposed to be brought into the country in consequence of the hitherto beneficial foreign trade. This is not all. I say farther, that the beneficial trade will last for a time only. For the infallible consequence of the rise of prices at home will be, that those nations which at first consumed your manufactures, perceiving the gradual increase of their price, will begin to work for themselves; or finding out your rivals who can supply them cheaper, will open their doors to them. These again, perceiving the great advantages gained by your traders, will begin to supply the market; and since every thing must be cheaper in countries where we do not suppose the concurrence of all the circumstances mentioned above, these nations will supplant you, and be enriched in their turn.

Here comes a new revolution. Trade is come to a stop: what
then becomes of all the hands which were formerly employed in
supplying the foreign demands?

Were revolutions as sudden as we are obliged to represent
them, all would go to wreck; in proportion as they happen by
quicker or slower degrees, the inconveniences are greater or
smaller.

Prices, we have said, are made to rise by competition. If the
competition of the strangers was what raised them, the distress
upon the manufacturers will be in proportion to the suddenness of
their deserting the market. If the competition was divided
between the strangers and the home consumers, the inconveniences
which ensue will be less; because the desertion of the strangers
will be in some measure made up by an increase of home
consumption which will follow upon the fall of prices. And if, in
the third case, the natives have been so imprudent as not only to
support a competition with the strangers, and thereby disgust
them from coming any more to market, but even to continue the
competition between themselves, the whole loss sustained by the
revolution will be national. Wealth will cease to augment, but
the inconveniences, instead of being felt by the manufacturers,
will affect the state only; these manufacturers will continue in
affluence, extolling the generosity of their countrymen, and
despering the poverty of the strangers who had enriched them.

Domestic luxury will here prove an expedient for preserving
from ruin the industrious part of a people, who, in subsisting
themselves, had enriched their country. No change will follow in
their condition; they will go on with a painful assiduity to
labour, and if the consequences of it become now hurtful to one
part of the state, they must, at least, be allowed to be
essentially necessary for the support of the other.

But that luxury is no necessary concomitant of foreign trade,
in a nation where the true principles of it are understood, will
appear very plain, from a contrast I am now going to point out,
in the example of a modern state, renowned for its commerce and
frugality. The country I mean, is Holland.

A set of industrious and frugal people were assembled in a
country, by nature subject to many inconveniences, the removing
of which necessarily employed abundance of hands. Their situation
upon the continent, the power of their former masters, and the
ambition of their neighbours, obliged them to keep great bodies
of troops. These troops added to the numbers of the community,
without either enriching the state by their labour exported, or
producing food for themselves or countrymen.

The scheme of a commonwealth was calculated to draw together
the industrious; but it has been still more useful in subsisting
them: the republican form of government, being there greatly
subdivided, vests authority sufficient in every part of it, to
make suitable provision for their own subsistence; and the tye
which unites them, regards matters of public concern only. Had
the whole been governed by one sovereign, or by one council, this
important matter never could have been effectuated.

I imagine it would be impossible for the most able minister
that ever lived, to provide nourishment for a country so extended
as France, or even as England, supposing these as fully peopled
as Holland is: even although it should be admitted that a
sufficient quantity of food might be found in other countries for
their subsistence. The enterprise would be too great, abuses
would multiply; the consequence would be, that the inhabitants
would die for want. But in Holland the case is different, every
little town takes care of its own inhabitants; and this care,
being the object of application and profit to so many persons, is
accomplished with success.

When once it is laid down as a maxim in a country, that food must of necessity be got from abroad, in order to feed the inhabitants at home, the corn trade becomes considerable, and at the same time certain, regular, and permanent. This was the case in Holland: as the inhabitants were industrious, the necessary consequence has been, a very extraordinary multiplication; and at the same time such an abundance of grain, that instead of being in want themselves, they often supply their neighbours. There are many examples of England's being supplied with grain from thence, and, which is still more extraordinary, from the re-exportation of the very produce of its own fruitful soil.

It is therefore evident, that the only way to support industry, is to provide a supply of subsistence, constantly proportional to the demand that may be made for it. This is a precaution indispensably necessary for preventing hurtful competition. This is the particular care of the Dutch: so long as it can be effectual, their state can fear no decline; but whenever they come to be distressed in the markets, upon which they depend for subsistence, they will sink into ruin. It is by mere dint of frugality, cheap and parsimonious living, that the navigation of this industrious people is supported. Constant employment, and an accumulation of almost imperceptible gains, fills their coffers with wealth, in spite of the large outgoings to which their own proper nourishment yearly forces them. The large profits upon industry in other countries, which are no proof of the generosity of the consumers, but a fatal effect of the unsteady price of subsistence, is far from dazzling their eyes. They seldom are found in the list of competitors at any foreign port; if they have their cargo to make, they wait with pleasure in their own vessels, consuming their own provisions, and at last accept of what others have left. It may be said, that many other circumstances concur in favour of the Dutch, besides the article of subsistence. I shall not dispute this matter; but only remind my reader of what was said in the first book; to wit, that if a computation be made of the hands employed in providing subsistence, and of those who are severally taken up in supplying every other want, their numbers will be found nearly to balance one another in the most luxurious countries. From this I conclude, that the article of food, among the lower classes, must bear a very high proportion to all the other articles of their consumption; and therefore a diminution upon the price of subsistence, it at all times, must be of and still more an uniformity in the value of infinite consequence to manufacturers, who are obliged to buy it. From this consideration, let us judge of the consequence of such sudden augmentations upon the price of grain, as are familiar to us; 30 or 40 per cent seems nothing. Now this augmentation operates upon one-half of the whole expence of a labouring man: let any one who lives in tolerable affluence make the application of this to himself, and examine how he would manage his affairs if, by accidents of rains or winds, one-half of his expences were to rise 30 per cent without a possibility of restraining them; for this is unfortunately the case with all the lower classes. From whence I conclude, that the keeping food cheap, and still more the preserving it at all times at an equal standard, is the fountain of the wealth of Holland; and that any hurtful competition in this article must beget a disorder which will affect the whole of the manufacturers of a state.

Chap. X
Of the Balance of Work and Demand

It is quite impossible to go methodically through the subject of political oeconomy, without being led into anticipations. We have frequently mentioned this balance of work and demand, and shewed how important a matter it is for a statesman to attend to it. The thing, therefore, in general is well understood; and all that remains to be done, is to render our ideas more determinate concerning it, and more adequate, if possible, to the principles we have been laying down.

We have treated fully of demand, and likewise of competition. We have observed how different circumstances influence these terms, so as to make them represent ideas entirely different; and we have said that double competition supports the balance we are now to speak of, and that single competition overturns it.

The word demand in this chapter is taken in the most simple acceptation; and when we say that the balance between work and demand is to be sustained in equilibrio, as far as possible, we mean that the quantity supplied should be in proportion to the quantity demanded, that is, wanted. While the balance stands justly poised, prices are found in the adequate proportion of the real expence of making the goods, with a small addition for profit to the manufacturer and merchant.

I have, in the fourth chapter, observed how necessary a thing it is to distinguish the two constituent parts of every price; the value, and the profit. Let the number of persons be ever so great, who, upon the sale of a piece of goods, share in the profits; it is still essential, in such enquiries as these, to suppose them distinctly separate from the real value of the commodity. and the best way possible to discover exactly the proportion between the one and the other, is by a scrupulous watchfulness over the balance we are now treating of, as we shall presently see.

The value and profits, combined in the price of a manufacture produced by one man, are easily distinguished by means of the analysis we have laid down in the fourth chapter. As long as any market is fully supplied with this sort of work, and no more; those who are employed in it live by their trade, and gain no unreasonable profit: because there is then no violent competition upon one side only, neither between the workmen, nor between those who buy from them, and the balance gently vibrates under the influence of a double competition. This is the representation of a perfect balance.

This balance is overturned in four different ways.
Either the demand diminishes, and the work remains the same:
Or the work diminishes, and the demand remains:
Or the demand increases, and the work remains:
Or the work increases, and the demand remains.

Now each of these four relations between demand and work may, or may not, produce a competition upon one side of the contract only.
This must be explained.

If demand diminishes, and work remains the same, which is the first case, either those who furnish the work will enter into competition, in which case they will hurt each other, and prices will fall below the reasonable standard of the even balance; or they will not enter into competition, and then prices continuing as formerly, the whole demand will be supplied, and the remainder of the work will lie upon hand.
This is a symptom of decaying trade.
Let us now, on the other hand, suppose demand to increase,
and work to remain as before.

This example points out no diminution on either side, as was the case before, but an augmentation upon one; and is either a symptom of growing luxury at home, or of an increase in foreign trade.

Here the same alternation of circumstances occurs. The demanders will either enter into competition and raise the price of work, or they will enter into no competition; but being determined not to exceed the ordinary standard of the perfect balance, will defer making their provision till another time, or supply themselves in another market; that is to say, the new demand will cease as soon as it is made, for want of a supply.

Whenever, therefore, this perfect balance of work and demand is overturned by the force of a simple competition, or by one of the scale preponderating, one of two things must happen; either a part of the demand is not answered, or a part of the goods is not sold.

These are the immediate effects of the overturning of the balance.

Let me next point out the object of the statesman’s care, relatively to such effects, and shew the consequences of their being neglected.

We may now simplify our ideas, and instead of the former, make use of other expressions which may convey them.

Let us therefore say, that the fall or rise upon either side of the balance, is positive, or relative. Positive, when the side we talk of really augments beyond, or diminishes below the usual standard. Relative, when there is no alteration upon the side we speak of, and that the subversion of the balance is owing to an alteration on the other side.

As for example:

Instead of saying demand diminishes, and work remains the same, let us say, demand diminishes positively, or work increases relatively; according as the subject may lead us to speak either of the one or of the other. This being premised.

If the scale of work shall preponderate positively, it should be inquired, whether the quantity furnished has really swelled, in all respects, beyond the proportion of the consumption, (in which case the statesman should diminish the number of hands, by throwing a part of them into a new channel) or whether the imprudence only of the workmen has made them produce their work unseasonably; in which case proper information and even assistance should be given them, to prevent merchants from taking advantage of their want of experience: but these last precautions are necessary in the infancy of industry only.

If a statesman should be negligent on this occasion; if he should allow natural consequences to follow upon one another, just as circumstances shall determine; then it may happen, that workmen will keep upon hand that part of their goods which exceeds the demand, until necessity forces them to enter into competition with one another, and sell for what they can get. Now this competition is hurtful, because it is all on one side, and because we have supposed the prepondering of the scale of work to be an overturning of a perfect balance, which can by no means be set right, consistently with a scheme of thriving, but by the scale of demand becoming heavier, and re-establishing a double competition. Were this to happen before the workmen come to sell in competition, then the balance would again be even, after what I call a short vibration, which is no subversion; but when the scale of work remains too long in the same position, and occasions a strong, hurtful, and lasting competition, upon one
side only, then, I say, the balance is overturned; because this
 diminishes the reasonable profits, or perhaps, indeed, obliges
 the workmen to sell below prime cost. The effect of this is, that
 the workmen fall into distress, and that industry suffers a
discouragement; and this effect is certain.

But it may be asked, Whether, by this fall of prices, demand
will not be increased? That is to say, will not the whole of the
goods be sold off?

I answer, That this may, or may not, be the effect of the
fall, according to circumstances: it is a contingent consequence
of the simple, but not the certain effect of the double
competition: but the distress of the workmen is a certain and
unavoidable consequence of the simple competition.

But supposing this contingent consequence to happen, will it
not set the balance even, by increasing the demand? I answer, the
balance is then made even by a violent shock given to industry,
but it is not set even from any principle which can support it,
or make it flourish. Here is the criterion of a perfect balance:
A positive moderate profit must balance a positive moderate
profit; the balance must vibrate, and no loss must befound on
either side. In the example before us, the balance stands even,
it is true; the work and the demand are equally poised as to
quantity; but it is a relative profit, which hangs in the scale,
opposite to a relative loss. I wish this may be well understood;
further illustrations will make it clear.

Next, let me suppose the scale of demand to preponderate
positively. In this case, the statesman should be still more upon
his guard, to provide a proportional supply; because the danger
here may at first put on a shew of profit, and deceive him.
The consequences of this subversion of the balance are
either.

First, That a competition will take place among the demanders
only, which will raise profits. Now if, after a short vibration,
the supply comes to be increased by the statesman's care, no harm
will ensue; competition will change sides, and profits will come
down again to the perfect standard. But if the scale of demand
remains preponderating, and so keeps profits high, the
consequence will be, that, in a little time, not only the
immediate seller of the goods, but also every one who has
contributed to the manufacture, will insist upon sharing these
new profits. Now the evil is not, that every one should share, or
that the profits should swell, as long as they are supported by
demand, and as long as they can truly be considered as
precarious; but the mischief is, that, in consequence of this
wide repartition, and by such profits subsisting for a long time,
they insensibly become consolidated, or, as it were, transformed
into the intrinsic value of the goods. This, I say, is brought
about by time; because the habitual extraordinary gains of every
one employed induce the more luxurious among them to change their
way of life insensibly, and fall into the habit of making greater
consumptions, and engage the more slothful to remain idle, till
they are exhausted. When therefore it happens, that large profits
have been made for a considerable time, and that they have had
the effect of forming a taste for a more expensive way of living
among the industrious, it will not be the cessation of the
demand, nor the swelling of the supply, which will engage them to
part with their gains. Nothing will produce this effect but sharp
necessity; and the bringing down of their profits, and the
throwing the workmen into distress, are then simultaneous; which
proves the truth of what I have said, that these profits become,
by long habit, virtually consolidated with the real value of the
merchandize. These are the consequences of a neglected simple competition, which raises the profits upon industry, and keeps the balance overturned for a considerable time.

Secondly, Let me examine the consequences of this overturn in the actual preponderancy of demand, when it does not occasion a competition among the demanders, and consequently, when it does not increase the profits upon industry.

This case can only happen, when the commodity is not a matter of great necessity, or even of great use; since the desire of procuring it is not sufficient to engage the buyers to raise their price; unless, indeed, this difference should proceed from the ease of providing the same, in other markets, as cheap as formerly. This last is a dangerous circumstance, and loudly calls for the attention of the statesman. He must prevent the desertion of the market, by a speedy supply for all the demand, and must even perhaps give encouragement to manufacturers, to enable them to diminish the prices fixed by the regular standard. This is the situation of a nation which is in the way of losing branches of her foreign trade; of which afterwards.

Whatever therefore be the consequences of the actual preponderancy of the scale of demand; that is, whether it tend to raise profits, or to discredit the market; the statesman's care should be directed immediately towards making the balance come even of itself, without any shock, and that as soon as possible, by increasing the supply. For if it be allowed to stand long in this overturned state, natural consequences will operate a forced restitution; that is, the rise in the price, or the call of a foreign market, will effectually cut off a proportional part of the demand, and leave the balance in an equilibrium, disadvantageous to trade and industry.

In the former case, the manufacturers were forced to starve, by an natural restitution, when the relative profits and loss of individuals balanced one another. Here the manufacturers are enriched for a little time, by a rise of profits, relative to the loss the nation sustains, by not supplying the whole demand. This results from the competition of their customers; but so soon as these profits become consolidated with the intrinsic value, they will cease to have the advantage of profits, and, becoming in a manner necessary to the existence of the goods, will cease to be considered as advantageous. These forced restitutions then, brought about, as we have said, by selling goods below their value, by cutting off a part of the demand, or by sending it to another market, resembles the operation of a carrier, who sets his ass's burden even, by laying a stone upon the lightest end of it. He however loses none of his merchandise; but the absurdity of the statesman is still greater, for he appears willingly to open the heavy end of the load, and to throw part of his merchandise into the highway.

I hope, by this time, I have sufficiently shewn the difference in effect between the simple and the double competition; between the vibrations of this balance of work and demand, and the overturning of it. When it vibrates in moderation, and by short alternate risings and sinkings, then industry and trade go on prosperously, and are in harmony with each other; because both parties gain. The industrious man is recompensed in proportion to his ingenuity; the intrinsic value of goods does not vary, nor deceive the merchant; profits on both sides fluctuate according to demand, but never get time to consolidate with, and swell the real value, and never altogether disappear, and starve the workman.

This happy state cannot be supported but by the care of the
statesman; and when he is found negligent in the discharge of
this part of his duty, the consequence is, that either the spirit
of industry, which, it is supposed, has cost him much pains to
cultivate, is extinguished, or the produce of it rises to so high
a value, as to be out of the reach of a multitude of purchasers.

The progress towards the one or the other of these extremes
is easily perceived, by attending to the successive overturnings
of the balance. When these are often repeated on the same side,
and the balance set right, by a succession of forced restitutions
only, the same scale preponderating a-new, then is the last
period soon accomplished. When, on the contrary, the overturnings
are alternate, sometimes the scale of demand overturning the
balance, sometimes the scale of work, the last period is more
distant. Trade and industry subsist longer, but they remain in a
state of perpetual convulsion. On the other hand, when the
balance gently vibrates, then work and demand, that is, trade and
industry, like agriculture and population, prove mutually
assisting to each other, in promoting their reciprocal
augmentation.

In order therefore to preserve a trading state from decline,
the greatest care must be taken, to support a perfect balance
between the hands employed in work and the demand for their
labour. That is to say, according to former definitions, to
prevent demand from ever standing long at an immoderate height,
by providing at all times a supply, sufficient to answer the
greatest that ever can be made: or, in other words, still, in
order to accustom my readers to certain expressions, to encourage
the great, and to discourage the high demand. In this case,
competition will never be found too strong on either side of the
contract, and profits will be moderate, but sure, on both.

If, on the contrary, there be found too many hands for the
demand, work will fall too low for workmen to be able to live;
or, if there be too few, work will rise, and manufactures will
not be exported.

For want of this just balance, no trading state has ever been
of long duration, after arriving at a certain height of
prosperity. We perceive in history the rise, progress, grandeur,
and decline of Sydon, Tyre, Carthage, Alexandria, and Venice, not
to come nearer home. While these states were on the growing hand,
they were powerful; when once they came to their height, they
immediately found themselves labouring under their own greatness.
The reason of this appears from what has been said.

While there is a demand for the trade of any country,
inhabitants are always on the increasing hand. This is evident
from what has been so often repeated in the first book, and
confirmed by thousands of examples. There never was any branch of
trade established in any kingdom, province, city, or even
village; but such kingdoms, province, &c. increased in
inhabitants. While this gradual increase of people is in
proportion to the growing demand for hands, the balance between
work and demand is exactly kept up: but as all augmentations must
at last come to a stop, when this happens, inconveniences must
ensue, greater or less, according to the negligence or attention
of the statesman, and the violence or suddenness of the
revolution.

Chap. XI

Why in Time this Balance is destroyed

Let us now examine what may be the reason why, in a trading
and industrious nation, time necessarily destroys the perfect balance between work and demand.

We have already pointed out one general cause, to wit, the natural stop which must at last be put to augmentations of every kind.

Let us now apply this to circumstances, in order to discover in what manner natural causes operate this stop, either by preventing the increase of work, on one side of the balance, or the increase of demand, on the other. When once we discover how the stop is put to augmentations, we may safely conclude, that the continuation of the same, or similar causes, will soon produce a diminution, and operate a decline.

We have traced the progress of industry, and shewn how it goes hand in hand with the augmentation of subsistence, which is the principal allurement to labour. Now the augmentation of food is relative to the soil, and as long as this can be brought to produce, at an expence proportioned to the value of the returns, agriculture, without any doubt, will go forward in every country of industry. But so soon as the progress of agriculture demands an additional expence, which the natural return, at the stated prices of subsistence, will not defray, agriculture comes to a stop, and so would numbers, did not the consequences of industry push them forward, in spite of small difficulties. The industrious then, I say, continue to multiply, and the consequence is, that food becomes scarce, and that the inhabitants enter into competition for it.

This is no contingent consequence, it is an infallible one; because food is an article of the first necessity, and here the provision is supposed to fall short of demand. This raises the profits of those who have food ready to sell; and as the balance upon this article must remain overturned for some time, without the interposition of the statesman, these profits will be consolidated with the price, and give encouragement to a more expensive improvement of the soil. I shall here interrupt the examination of the consequences of this revolution as to agriculture, until I have examined the effects which the rise of the price of food produces on industry, and on the demand for it.

This augmentation on the value of subsistence must necessarily raise the price of all work, because we are here speaking of an industrious people fully employed, and because subsistence is one of the three articles which compose the intrinsic value of their work, as has been said.

The rise therefore, upon the price of work, not being any augmentation of that part of the price which we call profits, as happens to be the case when a rise in demand has produced a competition among the buyers, cannot be brought down but by increasing the supply of subsistence; and were a statesman to mistake the real cause of the rise, and apply the remedy of increasing the quantity of work, in order to bring down the market, instead of augmenting the subsistence, he would occasion a great disorder; he would introduce the hurtful simple competition between people who labour for moderate profits, mentioned in the last chapter, and would throw such a discouragement upon their industry, as would quickly extinguish it altogether. On the other hand, did he imprudently augment the subsistence, by large importations, he would put an end to the expensive improvements of the soil, and this whole enterprise would fall to nothing. Here then is a dilemma, out of which he can extricate himself by a right application of public money, only.

Such a necessary rise in the price of labour may either
affect foreign exportation, or it may not, according to circumstances. If it does, the price of subsistence, at any rate, must be brought down at least to those who supply the foreign demand; if it does not affect foreign exportation, matters may be allowed to go on; but still the remedy must be ready at hand, to be applied the moment it becomes expedient.

There is one necessary augmentation upon the prices of industry, brought about by a very natural cause, viz. the increase of population, which may imply a more expensive improvement of the soil; that is, an extension of agriculture. This augmentation may very probably put a stop to the augmentation of demand for many branches of manufactures, consequently may stop the progress of industry; and if the same causes continue to operate in a greater degree, it may also cut off a part of the former demand, may discredit the market, open a door to foreign consumption, and produce the inconveniences of poverty and distress, in proportion to the degree of negligence in the statesman.

I shall now give another example, of a very natural augmentation upon the intrinsic value of work, which does not proceed from the increase of population, but from the progress of industry itself; which implies no internal vice in a state, but which is the necessary consequence of the reformation of a very great one. This augmentation must be felt less or more in every country, in proportion as industry becomes extended.

We have said, that the introduction of manufactures naturally tends to purge the lands of superfluous mouths: now this is a very slow and gradual operation. A consequence of it was said to be (Book I. Chap. xx.) an augmentation of the price of labour, because those who have been purged off, must begin to gain their whole subsistence at the expense of those who employ them.

If therefore, in the infancy of industry, any branch of it shall find itself assisted in a particular province; by the cheap labour of those mouths superfluously fed by the land, examples of which are very frequent, this advantage must diminish, in proportion as the cause of it ceases; that is, in proportion as industry is extended, and as the superfluous mouths are of consequence purged off.

This circumstance is of the last importance to be attended to by a statesman. Perhaps it was entirely owing to it, that industry was enabled to set up its head in this corner. How many examples could I give, of this assistance given to manufactures in different provinces, where I have found the value of a day's work, of spinning, for example, not equal to half the nourishment of the person. This is a great encouragement to the making of cloths; and accordingly we see some infant manufactures dispute the market with the produce of the greatest dexterity; the distaff dispute prices with the wheel. But when these provinces come to be purged of their superfluous mouths, spinning becomes a trade, and the spinners must live by it. Must not then prices naturally rise? And if these are not supported by the statesman, or if assistance is not given to these poor manufacturers, to enable them to increase their dexterity, in order to compensate what they are losing in cheapness, will not their industry fail? Will not the poor spinners be extinguished? For it is not to be expected, that the landlord will receive them back again from a principle of charity, after he has discovered their former uselessness.

A third cause of a necessary augmentation upon the intrinsic value of goods proceeds from taxes. A statesman must be very negligent indeed, if he does not attend to the immediate
consequences of his own proper operations. I shall not enlarge on this at present, as it would be an necessary anticipation; but I shall return, to resume the part of my reasoning which I broke off abruptly.

I have observed, how the same cause which stops the progress of industry, gives an encouragement to agriculture: how the rise in the price of subsistence necessarily increases the price of work to an industrious and well-employed people: how this cuts off a part of the demand for work, or sends it to a foreign market.

Now all these consequences are entirely just, and yet they seem Contradictory to another part of my reasoning, (Book I, Chap. xvi.) where I set forth the advantages of a prodigal consumption of the earth’s produce as advantageous to agriculture, by increasing the price of subsistence, without taking notice, on the other hand, of the hurt thereby done to industry, which supports the consumption of that produce.

The one and the other chain of consequences is equally just, and they appear contradictory upon the supposition only, that there is no statesman at the helm. These contradictions represent the alternate overturn of the balance. The duty of the statesman is, to support the double competition every where, and to permit the gentle alternate vibrations only of the two scales.

When the progress of industry has augmented numbers, and made subsistence scarce, he must estimate to what height it is expedient that the price of subsistence should rise. If he finds, that, in order to encourage the breaking up of new lands, the price of it must rise too high and stand high too long, to preserve the intrinsic value of goods at the same standard as formerly; then he must assist agriculture with his purse, in order that exportation may not be discouraged. This will have the effect of increasing subsistence, according to the true proportion of the augmentation required, without raising the price of it too high. And if this operation be the work of time, and the demand for the augmentation be pressing, he must continue to assist his agriculture and have subsistence imported, or brought from abroad, during that interval. This supply he may cut off whenever he pleases, that is, whenever it ceases to be necessary.

If the supply comes from a sister country, it must be so taken, as to occasion no violent revolution when it comes to be interrupted a-new. As for example: One province demands a supply of grain from another, for a few years only, until their own soil can be improved, so as to provide them sufficiently. The statesman should encourage agriculture, no doubt, in the province furnishing, and let the farmers know the extent of the demand, and the time it may probably last, as near as possible; but he must discourage the plucking up of vineyards, and even perhaps the breaking up of great quantities of old pasture; because, upon the ceasing of the demand, such changes upon the agriculture of the province furnishing, may occasion a hurtful revolution.

While this foreign supply is allowed to come in, the statesman should be closely employed in giving such encouragement to agriculture at home, according to the principles hereafter to be deduced, as may nearly balance the discouragement given to it by this newly permitted importation. If this step be neglected, the consequence may be, that the foreign supply will go on increasing every year, and will extinguish the agriculture already established in the country, instead of supplying a temporary exigency, which is within the power of the country itself to furnish. These, I suppose, were the principles attended
to by the government of England, upon opening their ports for the importation of provisions from Ireland.

The principle, therefore, being to support a gentle increase of food, inhabitants, work, and demand, the statesman must suffer small vibrations in the balance, which, by alternate competition, may favour both sides of the contract; but whenever the competition stands too long upon either side, and threatens a subversion of the balance, then, with an artful hand, he must endeavour to load the lighter scale, and never, but in cases of the greatest necessity, have recourse to the expedient of taking any thing from the heavier.

In treating of the present state of France, we observed, in the chapter above-cited, how the vibration of the balance of agriculture and population may carry food and numbers to their height; but as foreign trade was not there the direct object of inquiry, I did not care to introduce this second balance of work and demand, for fear of perplexing my subject. I hope I have now abundantly shewn the force of the different principles, and it must depend upon the judgment of the statesman to combine them together, and adapt them to his plan: a thing impossible to be even chalked out by any person who is not immediately at the head of the affairs of a nation. My work resembles the formation of the pure colours for painting, it is the artist's business to mix them: all I can pretend to, is to reason consequentially from suppositions. If at any time I go farther, I exceed my plan, and I confess the fault.

I shall now conclude my chapter by introducing a new subject. I have been at pains to shew how the continued neglect of a statesman, in watching over the vibrations of the balance of work and demand, naturally produces a total subversion of it; but this is not, of itself, sufficient to undo an industrious people. Other nations must be taught to profit of the disorder; and this is what I call the competition between nations.

Chap. XII

Of the Competition between Nations

Mankind daily profit by experience, and acquire knowledge at their own cost.

We have said that what lays the foundation of foreign trade, is the ease and convenience which strangers find in having their wants supplied by those who have set industry on foot. The natural consequence of this foreign demand is to bring in wealth, and to promote augmentations of every kind. As long as these go on, it will be impossible for other nations to rival the traders, because their situation is every day growing better: dexterity increasing diminishes the price of work; every circumstance, in short, becomes more favourable; the balance never vibrates, but by one of the scales growing positively heavier, and it is constantly coming even by an increase of weight on the other side. We have seen how these revolutions never can raise the intrinsic value of goods, and have observed that this is the road to greatness.

The slower any man travels, the longer he is in coming to his journey's end; and when his health requires travelling, and that he cannot go far from home, he rides out in a morning and comes home to dinner.

This represents another kind of vibration of the balance, and when things are come to such a height as to render a train of augmentations impossible, the next best expedient is, to permit
alternate vibrations of diminution and augmentation.

Work augments, I shall suppose, and no more demand can be procured; it may then be a good expedient to diminish hands, by making soldiers of them; by employing them in public works; or by sending them out of the country to become useful in its colonies. These operations give a relative weight to the scale of demand, and revive a competition on that side. Then the industrious hands must be gently increased a-new, and the balance kept in vibration as long as possible. By these alternate augmentations and diminutions, hurtful revolutions, and the subversion of the balance, may be prevented. This is an expedient for standing still without harm, when one cannot go forward to advantage.

If such a plan be followed, an industrious nation will continue in a situation to profit of the smallest advantage from revolutions in other countries, occasioned by the subversion of their balance; which may present an opportunity of new vibrations by alternate augmentations.

On such occasions, the abilities of a statesman are discovered, in directing and conducting what I call the delicacy of national competition. We shall then observe him imitating the mariners, who do not take in their sails when the wind falls calm, but keep them trimmed and ready to profit of the least breath of a favourable gale. Let me follow my comparison: The trading nations of Europe represent a fleet of ships, every one striving who shall get first to a certain port. The statesman of each is the master. The same wind blows upon all; and this wind is the principle of self-interest, which engages every consumer to seek the cheapest and the best market. No trade wind can be more general, or more constant than this; the natural advantages of each country represent the degree of goodness of each vessel; but the master who sails his ship with the greatest dexterity, and he who can lay his rivals under the lee of his sails, will, caeteris paribus, undoubtedly get before them, and maintain his advantage.

While a trading nation, which has got an established advantage over her rivals, can be kept from declining, it will be very difficult, if not impossible, for any other to enter into competition with her: but when the balance begins to vibrate by alternate diminutions; when a decrease of demand operates a failure of supply; when this again is kept low, in order to raise the competition of consumers; and when, instead of restoring the balance by a gentle augmentation, a people are engaged, from the allurements of high profits, to discourage every attempt to bring down the market; then the scissors of foreign rivalship will fairly trim off the superfluity of demand; prices will fall, and a return of the same circumstances will prepare the way for another vibration downwards.

Such operations as these, are just what is requisite for facilitating the competition of rival nations; and are the only means possible to engage those who did not formerly work, to begin and supply themselves.

Did matters stand so, the evil would be supportable; strangers would supply the superfluities only of demand, and the balance would still be found in a kind of equilibrium at home. But, alas! even this happy state can be of short duration only. The beginnings of trade with the strangers will prove just as favourable to the vibration of their balance, by augmentations, as it was formerly to the home-traders; and now every augmentation to those, must imply a diminution to the others. What will then become of such hands, in the trading nation, as subsist by supplying the foreign market only? Will not this
revolution work the same effect, as to these, as if an additional number of hands had been employed to supply the same consumption? And will not this utterly destroy the balance among the traders, by throwing an unsurmountable competition on the side of the supply? It will however have a different effect from what might have happened, if the same number of hands had been thrown into the trading nation; for, in this case, they might destroy the consolidated profits only upon labour, and perhaps restore the balance: the inconvenience would be equally felt by every workman, but profit would result to the public. But in the other case, the old traders will find no foreign sale for their work; these branches of industry will fall below the price of subsistence, and the new beginners will have reasonable profits in supplying their own wants, I say reasonable, because this transition of trade from one nation to another, never can be sudden or easy; and can take place in proportion only to the rise in the intrinsic value of goods in that which is upon the decline, not in proportion to the rise in their profits upon the sale of them: for as long as the most extravagant profits do not become consolidated, as we have said, with the value of the work, a diminution of competition among the consumers, which may be occasioned by a beginning of foreign industry, will quickly make them disappear; and this will prove a fatal blow to the first undertakings of the rival nations. But when once they are fairly so consolidated, that prices can no more come down of themselves, and that the statesman will not lend his helping hand, then the new beginners pluck up courage, and set out by making small profits: because in all new undertakings there is mismanagement and considerable loss; and nothing discourages mankind from new undertakings more than difficult beginnings.

As long, therefore, as a trading state is upon the rising hand, or even not upon the decline, and while the balance is kept right without the expedient of alternate diminishings, work will always be supplied from this quarter, cheaper than it possibly can be furnished from any other, where the same dexterity does not prevail. But when a nation begins to lose ground, then the very columns which supported her grandeur, begin, by their weight, to precipitate her decline. The wealth of her citizens will support and augment the home demand, and encourage that blind fondness for high profits, which it is impossible to preserve. The moment these consolidate to a certain degree, they have the effect of banishing from the market the demand of strangers, who only can enrich her. It is in vain to look for their return after the nation has discovered her mistake, although she should be able to correct it; because, before this can happen, her rivals will have profited of the golden opportunity, and during the infatuation of the traders, will, even by their assistance, have got fairly over the painful struggle against their superior dexterity.

Thus it happens, that so soon as matters begin to go backward in a trading nation, and that by the increase of their riches, luxury and extravagance take place of oeconomy and frugality among the industrious; when the inhabitants themselves foolishly enter into competition with strangers for their own commodities; and when a statesman looks coolly on, with his arms across, or takes it into his head, that it is not his business to interpose, the prices of the dextrous workman will rise above the amount of the mismanagement, loss, and reasonable profits, of the new beginners; and when this comes to be the case, trade will decay where it flourished most, and take root in a new soil. This I call a competition between nations.
How far the Form of Government of a particular Country may be favourable or unfavourable to a Competition with other Nations, in matters of Commerce

The question before us, though relative to another science, is not altogether foreign to this. I introduce it in this place, not so much for the sake of connexion, as by way of an illustration, which at the same time that it may serve as an exercise upon general principles, may also prove a relaxation to the mind, after so long a chain of close reasoning.

In setting out, I informed my readers that I intended to treat of the political oeconomy of free nations only; and upon every occasion where I have mentioned slavery, I have pointed out how far the nature of it is contrary to the advancement of private industry, the inseparable concomitant of foreign and domestic trade.

No term is less understood than that of liberty, and it is not my intention, at present, to enter into a particular inquiry into all the different acceptations of it.

By a people's being free, I understand no more than their being governed by general laws, well known, not depending upon the ambulatory will of any man, or any set of men, and established so as not to be changed, but in a regular and uniform way; for reasons which regard the body of the society, and not through favour or prejudice to particular persons, or particular classes. So far as a power of dispensing with, restraining or extending general laws, is left in the hands of any governor, so far I consider public liberty as precarious. I do not say it is hereby hurt; this will depend upon the use made of such prerogatives. According to this definition of liberty, a people may be found to enjoy freedom under the most despotic forms of government; and perpetual service itself, where the master's power is limited according to natural equity, is not altogether incompatible with liberty in the servant.

Here new ideas present themselves concerning the general principles of subordination and dependence among mankind; which I shall lay before my reader before I proceed, submitting the justness of them to his decision.

As these terms are both relative, it is proper to observe, that by subordination is implied an authority which superiors have over inferiors; and by dependence, is implied certain advantages which the inferiors draw from their subordination: a servant is under subordination to his master, and depends upon him for his subsistence.

Dependence is the only bond of society and I have observed, in the fourth chapter of the first book, that the dependence of one man upon another for food, is a very natural introduction to slavery. This was the first contrivance mankind fell upon, in order to become useful to one another.

Upon the abolishing of slavery, from a principle of christianity, the next step taken was the establishment of an extraordinary subordination between the different classes of the people; this was the principle of the feudal government.

The last refinement, and that which has brought liberty to be generally extended to the lowest denominations of a people, without destroying that dependence necessary to serve as a band of society, was the introduction of industry. by this is implied, the circulation of an adequate equivalent for every
service, which procures to the rich every advantage they could expect to reap, either from the servitude or dependence of the poor; and to these again, every comfort they could wish to enjoy under the mildest slavery, or most gentle subordination.

From this exposition, I divide dependence into three kinds. The first natural, between parents and children; the second political between masters and servants, lords and vassals, Princes and subjects; the third commercial, between the rich and the industrious.

May I be allowed to transgress the limits of my subject for a few lines, and to dip so far into the principles of the law of nature, as to enquire, how far subordination among men is thereby authorized? I think I may decide, that so far as the subordination is in proportion to the dependence, so far it is reasonable and just. This represents an even balance. If the scale of subordination is found too weighty, tyranny ensues; and licentiousness is implied, in proportion as it rises above the level. From this let me draw some conclusions.

First, He who depended upon another, for the preservation of a life justly forfeited, and at all times in the power of him who spared it, was, by the civil law, called a slave. This surely is the highest degree of dependence.

Secondly, He who depends upon another for every thing necessary for his subsistence, seems to be in the second degree; this is the dependence of children upon their parents.

Thirdly, He who depends upon another for the means of procuring subsistence to himself by his own labour, stands in the third degree: this I take to have been the case between the feudal lords, and the lowest classes of their vassals, the labourers of the ground.

Fourthly, He who depends totally upon the sale of his own industry, stands in the fourth degree: this is the case of tradesmen and manufacturers, with respect to those who employ them.

These I take to be the different degrees of subordination between man and man, considered as members of the same society.

In proportion, therefore, as certain classes, or certain individuals become more dependent than formerly, in the same proportion ought their just subordination to increase: and in proportion as they become less dependent than formerly, in the same proportion ought this just subordination to diminish. This seems to be a rational principle: next for the application.

I deduce the origin of the great subordination under the feudal government, from the necessary dependence of the lower classes for their subsistence. They consumed the produce of the land, as the price of their subordination, not as the reward of their industry in making it produce.

I deduce modern liberty from the independence of the same classes, by the introduction of industry, and circulation of an adequate equivalent for every service.

If this doctrine be applied in order to resolve the famous question so much debated, concerning the origin of supreme authority, so far as it is a question of the law of nature, I do not find the decision so very difficult: All authority is in proportion to dependence, and must vary according to circumstances.

I think it is as rational to say, that the fatherly power proceeded originally from the act of the children, as to say, that the great body of the people who were fed, and protected by a few great lords, was the fountain of power, and creator of subordination. Those who have no other equivalent to give for
their food and protection, must pay in personal service, respect, and submission; and so soon as they come to be a situation to pay a proper equivalent for these dependences, so far they acquire a title to liberty and independence. The feudal lords, therefore, who, with reason, had an entire authority over many of their vassals, being subdued by their King; the usurpation was upon their rights, not upon the rights of the lower classes: but when a King came to extend the power he had over the vassals of the lords, to the inhabitants of cities, who had been independent of this subordination, his usurpation became evident.

The rights of Kings, therefore, are to be sought for in history; and not founded upon the supposition of tacit contracts between them and their people, inferred from the principles of an imaginary law of nature, which makes all mankind equal: nature can never be in opposition to common reason.

The general principle I have laid down, appears, in my humble opinion, more rational than this imaginary contract; and as consonant to the full with the spirit of free government. If the original tacit contract of government between Prince and people is admitted universally, then all governments ought to be similar; and every subordination, which appears contrary to the entire liberty and independence of the lowest classes, ought to be construed as tyrannical: whereas, according to my principle, the subordination of classes may, in different countries, be vastly different; the prerogative of one sovereign may, from different circumstances, be far more extended than that of another.

May not one have attained the sovereignty (by the free election of the people, I suppose) because of the great extent of his possessions, number of his vassals and dependents, quantity of wealth, alliances and connexions with neighbouring sovereigns? Had not, for example, such a person as Hugh Capet, the greatest feudal lord of his time, a right to a much more extensive jurisdiction over his subjects, than could reasonably be aspired to by a King of Poland, sent from France, or from Germany, and set at the head of a republic, where he has not one person depending upon him for any thing?

The power of Princes, as Princes, must then be distinguished from the power they derive from other circumstances, which do not necessarily follow in consequence of their elevation to the throne. It would, I think, be the greatest absurdity to advance, that the title of King abolishes, of itself, the subordination due to the person who exercises the office of that high magistracy.

Matter of fact, which is stronger than all reasoning, demonstrates the force of the principle here laid down. Do we not see how subordination rises and falls under different reigns, under a rich Elizabeth, and a necessitous Charles, under a powerful Austrian, and a distressed Bavarian Emperor? I proceed no farther in the examination of this matter: perhaps my reader has decided that I have gone too far already.

From these principles may be deduced the boundaries of subordination. A people who depend upon nothing but their own industry for their subsistence, ought to be under no farther subordination than what is necessary for their protection. And as the protection of the whole body of such a people implies the protection of every individual, so every political subordination should there be general and equal: no person, no class should be under a greater subordination than another. This is the subordination of the laws; and whenever laws establish a subordination more than what is proportionate to the dependence
of those who are subordinate, so far such laws may be considered as contrary to natural equity, and arbitrary.

These things premised, I come to the question proposed, namely, How far particular forms of government are favourable or unfavourable to a competition with other nations, in point of commerce?

If we reason from facts, and from experience, we shall find, that trade and industry have been found to flourish best under the republican form, and under those which have come the nearest to it. May I be allowed to say, that, perhaps, one principal reason for this has been, that under these forms the administration of the laws has been the most uniform, and consequently, that most liberty has actually been there enjoyed. I say actually, because I have said above, that in my acceptation of the term, liberty is equally compatible with monarchy as with democracy; I do not say the enjoyment of it is equally secure under both; because under the first it is much more liable to be destroyed. The life of the democratical system is equality. Monarchy conveys the idea of the greatest inequality possible. Now, if, on one side, the equality of the democracy secures liberty; on the other, the moderation in expense discourages industry; and if, on one side, the inequality of the monarchy endangers liberty, the progress of luxury encourages industry on the other. From whence we may conclude, that the democratical system is naturally the best for giving birth to foreign trade; the monarchical, for the refinement of the luxurious arts, and for promoting a rapid circulation of inland commerce.

The danger which liberty is exposed to under monarchy, and the discouragement to industry, from the frugality of the democracy, are only the natural and immediate effects of the two forms of government; and these inconveniences will take place only, while statesmen neglect the interest of commerce, so far as not to make it an object of administration.

The disadvantage, therefore, of the monarchical form, in point of trade and industry, does not proceed from the inequality it establishes among the citizens, but from the consequence of this inequality, which is very often accompanied with an arbitrary and undeterminate subordination between the individuals of the higher classes, and those of the lower; or between those vested with the execution of the laws, and the body of the people. The moment it is found that any subordination within the monarchy, between subject and subject, is left without proper bounds prescribed, liberty is so far at an end. Nay monarchy itself is hereby hurt, as this undeterminate subordination implies an arbitrary power in the state, not vested in the monarch. Arbitrary power never can be delegated; for if it be arbitrary, it may be turned against the monarch, as well as against the subject.

I might therefore say, that when such a power in individuals is constitutional in the monarchy, such monarchy is not a government, but a tyranny, and therefore falls without the limits of our subject; and when such a power is anti-constitutional, and yet is exercised, that it is an abuse, and should be overlooked. But as the plan of this inquiry engages me to investigate the operations of general principles, and the consequences they produce, I cannot omit, in this place, to point out those which flow from an indeterminate subordination, from whatever cause it may proceed.

Whether this indeterminate subordination between individuals, be a vice in the constitution of the government, or an abuse, it is the same thing as to the consequences which result from it. It
is this which checks and destroys industry, and which in a great measure prevents its progress from being equal in all countries. This difference in the form or administration of governments, is the only one which it is essentially necessary to examine in this inquiry. and, so essential it is, in my opinion, that I imagine it would be less hurtful, in a plan for the establishment of commerce, fairly, and at once to enslave the lower classes of the inhabitants, and to make them vendible like other commodities, than to leave them nominally free, burthened with their own maintenance, charged with the education of their children, and at the same time under an irregular subordination; that is, liable at every moment to be loaded with new prestations or impositions, either in work or otherwise, and to be fined or imprisoned at will by their superiors.

It produces no difference, whether these irregularities be exercised by those of the superior classes, or by the statesman and his substitutes. It is the irregularity of the exactions more than the extent of them which ruins industry. It renders living precarious, and the very idea of industry should carry along with it, not only an assured livelihood, but a certain profit over and above.

Let impositions be ever so high, provided they be proportional, general, gradually augmented, and permanent, they may have indeed the effect of stopping foreign trade, and of starving the idle, but they never will ruin the industrious; as we shall have occasion to shew in treating of taxation. Whereas, when they are arbitrary, falling unequally upon individuals of the same condition, sudden, and frequently changing their object, it is impossible for industry to stand its ground. Such a system of oeconomy introduces an unequal competition among those of the same class, it stops industrious people in the middle of their career, discourages others from exposing to the eyes of the public the ease of their circumstances, consequently encourages hoarding; this again excites rapaciousness upon the side of the statesman, who sees himself frustrated in his schemes of laying hold of private wealth.

From this a new set of inconveniences follow. He turns his views upon solid property. This inspires the landlords with indignation against him who can load them at will; and with envy against the monied interest, who can baffle his attempts. This class again is constantly upon the catch to profit of the public distress for want of money. What is the consequence of all this? It is that the lowest classes of the people, who ought by industry to enrich the state, find on one hand the monied interest constantly amassing, in order to lend to the state, instead of distributing among them, by seasonable loans, their superfluous income, with a view to share the reasonable profits of their ingenuity; and on the other hand, they find the emissaries of taxation robbing them of the seed before it is sown, instead of waiting for a share in the harvest.

Under the feudal form of government, liberty and independence were confined to the nobility. Birth opened the door of preferment to some, and birth as effectually shut it against others. I have often observed how, by reason and from experience, such a form of government must be unfavourable both to trade and industry.

From reason it is plain, that industry must give wealth, and wealth will give power, if he who possesses it be left the master to employ it as he pleases. A government could not therefore encourage a system which tended to throw power into the hands of those who were made to obey only. It was consequently very
natural for the nobility to be jealous of wealthy merchants, and of every one who became easy and independent by means of his own industry; experience proved how exactly this principle regulated their administration.

A statesman ought, therefore, to consider attentively every circumstance of the constitution of his country, before he sets on foot the modern system of trade and industry. I am far from being of opinion that this is the only road to happiness, security, and ease; though, from the general taste of the times I live in, it be the system I am principally employed to examine. A country may be abundantly happy, and sufficiently formidable to those who come to attack it, without being extremely rich. Riches indeed are forbid to all who have neither mines, or foreign trade.

If a country be found labouring under many natural disadvantages from inland situation, barren soil, distant carriage, it would be in vain to attempt a competition with other nations in foreign markets. All that can be then undertaken is a passive trade, and that so far only as it can bring in additional wealth. When little money can be acquired, the statesman's application must be, to make that already acquired to circulate as much as possible, in order to give bread to every one in the society.

In countries where the government is vested in the hands of the great lords, as is the case in all aristocracies, as was the case under the feudal government, and as it still is the case in many countries in Europe, where trade, however, and industry are daily gaining ground; the statesman who sets the new system of political oeconomy on foot, may depend upon it, that either his attempt will fail, or the constitution of the government will change. If he destroys all arbitrary dependence between individuals, the wealth of the industrious will share, if not totally root out the power of the grandees. If he allows such a dependence to subsist, his project will fail.

While Venice and Genoa flourished, they were obliged to open the doors of their senate to the wealthy citizens, in order to prevent their being broken down. What is venal nobility? The child of commerce, the indispensible consequence of industry, and a middle term, which our Gothic ancestors found themselves obliged to adopt, in order not entirely to lose their own rank in the state. Money, they found, must carry off the fasces, (sic), so they chose rather to adopt the wealthy plebeians, and to clothe ignoble shoulders with their purple mantle, than to allow these to wrest all authority out of the hands of the higher class. By this expedient, a sudden revolution has often been prevented. Some kingdoms have been quit for a bloody rebellion or a long civil war. Other countries have likewise demonstrated the force of the principles here laid down: a wealthy populace has broken their chains to pieces, and overturned the very foundations of the feudal system.

All these violent convulsions have been owing to the short-sightedness of statesmen; who, inattentive to the consequences of growing wealth and industry, foolishly imagined that hereditary subordination was to subsist among classes, whose situation, with respect to each other, was entirely changed.

The pretorian cohorts were at first subordinate to the orders of the Emperors, and were the guards of the city of Rome. The Janissaries are understood to be under the command of the principal officers of the Port. So soon as the leading men of Rome and Constantinople, who naturally were entitled to govern the state, applied to these tumultuous bodies for their
protection and assistance, they in their turn, made sensible of
their own importance, changed the constitution, and shared in the
government.

A milder revolution, entirely similar, is taking place in
modern times; and an attentive spectator may find amusement in
viewing the progress of it in many states of Europe. Trade and
industry are in vogue; and their establishment is occasioning a
wonderful fermentation with the remaining fierceness of the
feudal constitution.

Trade and industry owed their establishment to war and to
ambition; and perhaps mankind may hope to see the day when this
establishment will put an end to the first, by exposing the
expensive folly of the latter.

Trade and industry, I say, owed their establishment to the
ambition of princes who supported and favoured the plan in the
beginning, principally with a view to enrich themselves, and
thereby to become formidable to their neighbours. But they did
not discover, until experience taught them, that the wealth they
drew from such fountains was but the overflowing of the spring;
and that an opulent, bold, and spirited people, having the fund
of the prince's wealth in their own hands, have it also in their
own power, when it becomes strongly their inclination, to shake
off his authority. The consequence of this change has been the
introduction of a more mild, and a more regular plan of
administration. The money gatherers are become more useful to
princes, than the great lords; and those who are fertile in
expedients for establishing public credit, and for drawing money
from the coffers of the rich, by the imposition of taxes, have
been preferred to the most wise and most learned counsellors.

As this system is new, no wonder if it has produced phenomena
both new and surprising. Formerly, the power of Princes was
employed to destroy liberty, and to establish arbitrary
subordination; but in our days, we have seen those who have best
comprehended the true principles of the new plan of politics,
arbitrarily limiting the power of the higher classes, and thereby
applying their authority towards the extension of public liberty,
by extinguishing every subordination, but that due to the
established laws.

The fundamental maxim of some of the greatest ministers, has
been to restrain the power of the great lords. The natural
inference that people drew from such a step, was, that the
minister thereby intended to make every thing depend on the
prince's will only. This I do not deny. But what use have we seen
made of this new acquisition of power? Those who look into events
with a political eye, may perceive several acts of the most
arbitrary authority exercised by some late European sovereigns,
with no other view than to establish public liberty upon a more
extensive bottom.

And although the prerogative of some princes be increased
considerably beyond the bounds of the ancient constitution, even
to such a degree as perhaps justly to deserve the name of
usurpation; yet the consequences resulting from the revolution,
cannot every where be said, upon the whole, to have impaired what
I call public liberty. I should be at no loss to prove this
assertion from matters of fact, and by examples, did I think it
proper: it seems better to prove it from reason.

When once a state begins to subsist by the consequences of
industry, there is less danger to be apprehended from the power
of the sovereign. The mechanism of his administration becomes
more complex, and, as was observed in the introduction to the
first book, he finds himself so bound up by the laws of his
political oeconomy, that every transgression of them runs him into new difficulties.

I speak of governments only which are conducted systematically, constitutionally, and by general laws; and when I mention princes, I mean their councils. The principles I am enquiring into, regard the cool administration of their government; it belongs to another branch of politics, to contrive bulwarks against their passions, vices and weaknesses, as men.

I say, therefore, that from the time states have begun to be supported by the consequences of industry, the plan of administration has become more moderate; has been changing and refining by degrees; and every change, as has been often observed, must be accompanied with inconveniences.

It is of governments as of machines, the more they are simple, the more they are solid and lasting; the more they are artfully composed, the more they become useful; but the more apt they are to be out of order.

The Lacedemonian form may be compared to the wedge, the most solid and compact of all the mechanical powers. Those of modern states to watches, which are continually going wrong; sometimes the spring is found too weak, at other times too strong for the machine: and when the wheels are not made according to a determinate proportion, by the able hands of a Graham, or a Julien le Roy, they do not tally well with one another; then the machine stops, and if it be forced, some part gives way; and the workman's hand becomes necessary to set it right.

Chap. XIV

Security, Ease and Happiness, no inseparable Concomitants of Trade and Industry

The republic of Lycurgus represents the most perfect plan of political oeconomy, in my humble opinion, anywhere to be met with, either in ancient or modern times. That it existed cannot be called in question, any more than that it proved the most durable of all those established among the Greeks; and if at last it came to fail, it was more from the abuses which gradually were introduced into it, than from any vice in the form.

The simplicity of the institution made the solidity of it; and had the Lacedemonians at all times adhered to the principles of their government, and spirit of their constitution, they might have perhaps subsisted to this very day.

My intention, in this chapter, is not to enter into a critical disquisition concerning the mechanism of every part of the Spartan republic; but to compare the general plan of Lycurgus's political oeconomy with the principles we have been laying down.

Of this plan we have a description in the life of this legislator written by Plutarch, one of the most judicious authors to be met with in any age.

This historian flourished at least 800 years after the institution of the plan he describes. A plan never reduced into a system of written laws, but stamped at first upon the minds of the Spartans by the immediate authority of the gods, which made them submit to the most violent revolution that perhaps ever took place in any nation, and which they supported for so many ages by the force of education alone.

As the whole of Lycurgus's laws was transmitted by tradition only, it is not to be supposed, that the description Plutarch, or indeed any of the ancients, have given us of this republic, can
be depended on with certainty as a just representation of every part of the system laid down by that great statesman. But on the other hand, we may be very sure, that as to the outlines of the institution, we have them transmitted to us in all their purity'. and, in what relates to my subject, I have no occasion to touch on any particulars which may admit of the smallest controversy, as to the matter of fact.

Property among the Lacedemonians, at the time when Lycurgus planned his institution, was very unequally divided: the consequence of which, says our historian, was to draw many poor people into the city, where the wealth was gathered into few hands; that is according to our language, the luxury of the rich, who lived in the city, had purged the lands of useless mouths, and the instability of the government had rendered industry precarious, which must have opened the door to general distress among all the lower classes.

The first step our legislator took, was to prepare the spirit of the people, so as to engage them to submit to a total reform, which could not fail of being attended with innumerable inconveniences.

For this purpose he went to Delphi, without having communicated his design to any body. The Pythia declared him to be the darling of the gods, and rather a god than a man; and publicly gave out, that Apollo had delivered to him alone the plan of a republic which far exceeded every other in perfection.

What a powerful engine was this in the hands of a profound politician, who had travelled over the world with a previous intention to explore the mysteries of the science of government! and what advantages did such an authentic recommendation, coming directly (as was believed) from the voice of the Divinity, give him over a superstitious people, in establishing whatever form of government he thought most proper!

The sagacious Lacedemonian did not, however, entirely depend upon the blind submission of his countrymen to the dictates of the oracle; but wisely judged that some preparatory steps might still be necessary. He communicated, therefore, his plan, first to his friends, and then by degrees to the principal people of the state, who certainly never could have been brought to relish an innovation so prejudicial to their interest, had it not been from the deepest reverence and submission to the will of the gods. Assured of their assistance, he appeared in the market place, accompanied by his party, all in arms; and having imposed respect, he laid the foundation of his government by the nomination of a senate.

Whatever regards any other object than his plan of political oeconomy, shall be here passed over in silence. It is of no consequence to my inquiry, where the supreme power was vested: it is sufficient to know that there was an authority enough in the state to support the execution of his plan.

He destroyed all inequality at one stroke. The property of all the lands of the state was thrown together, and became at the disposal of the legislator. Every branch of industry was proscribed to the citizens. And a monied interest was made to disappear, by the introduction of iron coin. The lands he divided into equal lots, according to the number of citizens.

Thus all were rendered entirely equal in point of fortune, as neither wealth, industry, or lands, could give a superiority to any body. From this part of the plan I conclude, that Lycurgus discovered the utter insufficiency of an agrarian law for establishing equality among the individuals of a state, without proscribing, at the same time, both wealth and industry. A
circumstance which seems to have escaped every other statesman in ancient times, as well as the modern patrons of equality and simplicity of manners. The lands were cultivated by the Helotes, who were nourished from them, and who were obliged to deliver the surplus, that is, a determinate quantity of fruits, to the proprietor of the lot. Every necessary mechanic art was likewise exercised by this body of slaves.

By this distribution, the produce of the earth (that is every article of nourishment) came free and without cost to every individual of the state. The Spartan landlords were rather overseers of the slaves, and collectors of the public subsistence, than direct proprietors of the soil which produced it. For although every man was fed from his own lands, and provided his own portion, yet this portion was regulated, and was to be consumed in public; and any one who pretended to eat alone, or before he came to the public hall, was held in the utmost contempt.

Their clothing was the most simple possible, perfectly alike, and could be purchased for a small value. This frugality produced no bad effect; because no man lived by his industry. Arts, as has been said, were exercised by the Helotes, the property of private citizens; and if such masters as entertained manufacturing slaves gained by the traffic (as some must do) every method of profiting of their superior riches was cut off.

The Spartans were continually together; they had nothing to do but to divert themselves; and their amusements were mostly martial exercises. The regulations of these numerous assemblies (which were compared, with great elegance and justness, to swarms of bees) cut off all outward marks of distinction. There was not a possibility for luxury to introduce itself, either in eating, drinking, clothing, furniture, or any other expense.

Here then was a whole nation fed and provided for gratuitously; there was not the least occasion for industry. the usefulness of which, we have shewn principally to consist in its proving an expedient for procuring for the necessitous, what the Spartans found provided for them without labour.

Under such circumstances we may conclude, from the principles we have laid down, that a people thus abundantly nourished, must have multiplied exceedingly. And so no doubt they did. But the regulation of the lots permitted no more than a fixed number of citizens. Whenever, therefore, numbers were found to exceed this standard, the supernumeraries were dismissed, and sent to form colonies. And when the Helotes increased too much, and thereby began to rise above the proportion of the labour required of them, in order to prevent the consuming the food of their masters, which they had in their hands, and thereby becoming idle, licentious, and consequently dangerous to the state, it was permitted to destroy them by way of a military exercise, conducted by stratagem and address; arts which this people constantly preferred in war, to labour, strength and intrepidity.

This appears a very barbarous custom, and I shall not offer any thing as an apology for it, but the ferocity of the manners of those times. Abstracting from the cruelty, the restraining the numbers of this class within certain limits, was absolutely necessary. The Lacedemonian slaves were in many respects far happier than those of other nations. They were in reality a body of farmers, which paid a certain quantity of fruits out of every lot; to wit, 70 medimni of barley: their numbers were not recruited from abroad, as elsewhere, but supported by their own propagation; consequently there was an absolute necessity either to prevent the over multiplication of them, or to diminish an
income proportioned exactly to the necessities of the state: and what expedient could be fallen upon? They were slaves, and therefore, could not be inrolled in the number of citizens; they could not be sold to strangers, for money which was forbid; and they were of no use to industry. No wonder then if the fierceness of the manners of those days permitted the inhuman treatment they received; which, however, Plutarch is far from attributing to the primitive institution of Lycurgus. Besides, when we see that the freemen themselves were obliged to quit the country the moment their numbers exceeded a certain standard, it was not to be expected, that useless slaves should be permitted to multiply at discretion.

From this sketch of Lycurgus's political oeconomy, we find the state abundantly provided with every necessary article; an effectual stop put to abusive procreation among the citizens; and a corrective for the over multiplication of the slaves. The next care of a statesman is to regulate the employment of a people. Every freeman in the state was bred up from his infancy to arms. No family care could prevent him from serving the state as a soldier: his children were no load upon him; it was the business of the Helotes to supply them with provisions: of the servants in town to prepare these, and the public tables were always ready furnished. The whole youth of Sparta was educated not as the children of their parents, but of the state. They imbibed the same sentiments of frugality, temperance, and love of simplicity. They exercised the same employment, and were occupied in the same way in every respect. The simplicity of Lycurgus's plan, rendered this a practicable scheme. The multiplicity and variety of employments among us, makes it absolutely necessary to trust the parents with the education of their children; whereas in Sparta, there were not two employments for a free man; there was neither orator, lawyer, physician, or politician, by profession to be found. The institutions of their lawgiver were constantly inculcated by the old upon the minds of the young; every thing they heard or saw, was relative to war. The very gods were represented in armour, and every precept they were taught, tended to banish superfluity, and to establish moderation and hard living.

The youth were continually striving together in all military exercises; such as boxing and wrestling. To keep up, therefore, a spirit of emulation, and to banish animosity at the same time, sharp, satirical expressions were much encouraged; but these were always to be seasoned with something gracious or polite. The grave demeanour likewise, and downcast look which they were ordered to observe in the streets, and the injunction of keeping their hands within their robes, might very naturally be calculated to prevent quarrels, and especially blows, at times when the authority of a public assembly could not moderate the vivacity of their passions. By these arts, the Spartans lived in great harmony in the midst of a continual war.

Under such regulations a people must enjoy security from foreign attacks; and certainly the intention of the legislator never was to extend the limits of Laconia by conquest. What people could ever think of attacking the Lacedemonians, where nothing but blows could be expected? They enjoyed ease in the most supreme degree; they were abundantly provided with every necessary of life; although, I confess, the enjoyment of these, in so austere a manner, would not be relished by any modern society. But habit is all in things of this kind. A coarse meal, to a good stomach, has more relish than all the delicacies of the most exquisite preparation to a
depraved appetite; and if the pleasures of love be reckoned among the pleasures of life, enough of it might have been met with in the manners of this people. It does not belong to my subject to enter into particular details on this head. But the most rational pleasure among men, the delightful communication of society, was here enjoyed to the utmost extent. The whole republic was continually gathered together in bodies, and their studies, their occupations and their amusements, were the same. One taste was universal: and the young and the old being constantly together, the first under the immediate inspection and authority of the latter, the same sentiments were transmitted from generation to generation. The Spartans were so pleased, and so satisfied with their situation, that they despised the manners of every other nation. If this does not transmit an idea of happiness, I am at a loss to form one. Security, ease, and happiness, therefore, are not inseparable concomitants of trade and industry.

Lycurgus had penetration enough to perceive the weak side of his institution. He was no stranger to the seducing influence of luxury; and plainly foresaw, that the consequences of industry, which procures to mankind a great variety of new objects of desire, and a wonderful facility in satisfying them, would easily root out the principles he had endeavoured to instil into his countrymen, if the state of simplicity should ever come to be corrupted by foreign communications. He affected, therefore, to introduce several customs which could not fail of disgusting and shocking the delicacy of neighbouring states. He permitted the dead to be buried within the walls; the handling of dead bodies was not reckoned pollution among the Lacedemonians. He forbade bathing, so necessary for cleanliness in a hot country; and the coarseness and dirtiness of their cloaths, and sweat from their hard exercises, could not fail to disgust strangers from coming among them. On the other hand, nothing was found at Sparta which could engage a stranger to wish to become one of their number. And to prevent the contagion of foreign customs from getting in, by means of the citizens themselves, he forbade the Spartans to travel; and excluded from any employment in the state, those who had got a foreign education. Nothing indeed but a Spartan breeding could have fitted a person to live among them.

The theft encouraged among the Lacedemonians was calculated to make them artful and dextrous; and contained not the smallest tincture of vice. It was generally of something eatable, and the frugality of their table prompted them to it; while on the other hand, their being exposed to the like reprisals, made them watchful and careful of what belonged to themselves; and the pleasure of punishing an unsuccessful attempt, in part indemnified them for the trouble of being constantly upon their guard. A Lacedemonian had nothing of any value that could be stolen; and it is the desire and intention of making unlawful gain which renders theft either criminal or scandalous.

The hidden intercourse between the Spartans and their young wives was no doubt, calculated to impress upon the minds of the fair sex, the wide difference there is between an act of immodesty, and that of simply appearing naked in the public exercises; two things which we are apt to confound, from the impression of our own customs only. I am persuaded that many a young person has felt her modesty as much hurt by taking off her handkerchief, the first time she appeared at court, as any Lacedemonian girl could have done by stripping before a thousand people; yet both her reason and common sense, must make her sensible of the difference between a compliance with a custom in a matter of dress, and a palpable transgression against the laws
of her honour, and the modesty of her sex.

I have called this Lacedemonian republic a perfect plan of political oeconomy; because it was a system, uniform and consistent in all its parts. There, no superfluity was necessary, because there was no occasion for industry, to give bread to any body. There, no superfluity was permitted, because the moment the limits of the absolutely necessary are transgressed, the degrees of excess are quite indeterminate, and become purely relative. The same thing which appears superfluity to a peasant, appears necessary to a citizen; and the utmost luxury of this class frequently does not come up to what is thought the mere necessary for one in a higher rank. Lycurgus stopt at the only determined frontier, the pure physical necessary. All beyond this was considered as abusive.

The only things in commerce among the Spartans were, First, What might remain to them of the fruits of their lot, over their own consumption; and secondly, The work of the slaves employed in trades. The numbers of these could not be many, as the timber of their houses was worked with the saw and axe only; and every utensil was made with the greatest simplicity. A small quantity, therefore, of iron coin, as I imagine, must have been sufficient for carrying on the circulation at Sparta. The very nature of their wants must, as I have said, terminate all their commerce, in the exchange of the surplus-food of their portions of land, with the work of the manufacturing slaves, who must have been fed from it.

As the Lacedemonians had no mercantile communications with other nations, the iron coin was no more than a bank note of no intrinsic value, as I suppose, but a middle term introduced for keeping accounts, and for facilitating barter. An additional argument for this opinion of the coin being of no intrinsic value, is, that it is said to have been rendered unserviceable for other uses, by being slaked in vinegar; in order consequently to destroy, as they imagined, any intrinsic value which might otherwise remain. If this coin, therefore, was made of an extra-ordinary weight, it must have been entirely with a political view of discouraging commerce and circulation, an institution quite consistent with the general plan, and nowise a consequence of the baseness of the metal of which it was made: a small quantity of this, with the stamp of public authority for its currency and value, would have answered every purpose equally well.

Let me now conclude this chapter by an illustration of the subject, which will still more clearly point out the force of the principles upon which this Lacedemonian republic was established.

Were any Prince in Europe, whose subjects, I shall suppose, may amount to six millions of inhabitants, one half employed in agriculture, the other half employed in trade and industry, or living upon a revenue already acquired; were such a Prince, I say, supposed to have authority sufficient to engage his people to adopt a new plan of oeconomy, calculated to secure them against the designs of a powerful neighbour, who, I shall suppose, has formed schemes of invading and subduing them.

Let him engage the whole proprietors of land to renounce their several possessions: or if that supposition should appear too absurd, let him contract debts to the value of the whole property of the nation; let the land-tax be imposed at twenty shillings in the pound, and then let him become bankrupt to the creditors. Let the income of all the lands be collected throughout the country for the use of the state; let all the luxurious arts be proscribed; and let those employed in them be
formed, under the command of the former land proprietors, into a body of regular troops, officers and soldiers, provided with every thing necessary for their maintenance, and that of their wives and families at the public expence. Let me carry the supposition farther. Let every superfluity be cut off; let the peasants be enslaved, and obliged to labour the ground with no view of profit to themselves, but for simple subsistence; let the use of gold and silver be proscribed; and let all these metals be shut up in a public treasure. Let no foreign trade, and very little domestic be encouraged; but let every man, willing to serve as a soldier, be received and taken care of; and those who either incline to be idle, or who are found superfluous, be sent out of the country. I ask, what confederacy among the modern European Princes, would carry on a successful war against such a people? What article would be wanting to their ease, that is, to their ample subsistence? Their happiness would depend upon the temper of their mind. And what country could defend itself against the attack of such an enemy? Such a system of political oeconomy, I readily grant, is not likely to take place: but if ever it did, would it not effectually dash to pieces the whole fabric of trade and industry which has been forming for so many years? And would it not quickly oblige every other nation to adopt, as far as possible, a similar conduct, from a principle of self-preservation.

Chap. XV

A general View of the Principles to be attended to by a Statesman, who resolves to establish Trade and Industry upon a lasting Footing

The two preceding chapters I have introduced purposely to swerve as an illustration of general principles, and as a relaxation to the mind, like a farce between the acts of a serious opera. I now return to the place where I broke off my subject, at the end of the twelfth chapter.

It is a great assistance to memory, now and then to assemble our ideas, after certain intervals, in going through an extensive subject. Every branch of it must, in setting out, be treated with simplicity, and all combinations not absolutely necessary, must be banished from the theory. When this theory again comes to be applied to examples, combinations will crowd in, and every one of these must be attended to.

For this reason nothing can appear more inconsistent than the spirit which runs through some parts of this book, if compared with that which prevailed in the first. There luxury was looked on with a favourable eye, and every augmentation of superfluity was considered as a method of advancing population. We were then employed in drawing mankind, as, it were, out of a state of idleness, in order to increase their numbers, and engage them to cultivate the earth. We had no occasion to divide them into societies having separate interests, because the principles we treated of were common to all. We therefore considered the industrious, who are the providers, and the luxurious, who are the consumers, as children of the same family, and as being under the care of the same father.

We are now engaged in a more complex operation; we represent different societies, animated with a different spirit; some given to industry and frugality, others to dissipation and luxury. This creates separate interests among nations, and every one must be supposed to be under the government of a statesman, who is wholly
taken up in advancing the good of those he governs, though at the expence of other societies which lie round him.

This presents a new idea, and gives birth to new principles. The general society of mankind treated of in the first book, is here in a manner divided into two: the industrious providers are supposed to live in one country, the luxurious consumers in another. The principles of the first book remain here in full vigour. Luxury still tends as much as ever to the advancement of industry, the statesman's business only is, to remove the seat of it from his own country. When this can be accomplished without detriment to industry at home, he has an opportunity of joining all the advantages of ancient simplicity to the wealth and power which attend upon the luxury of modern states. He may preserve his people in sobriety, and moderation as to every expence, as to every consumption, and make them enjoy, at the same time, riches and superiority over all their neighbours.

Such would be the state of trading nations, were they employed in supplying the wants or extravagant consumption of strangers only, and did they not insensibly adopt the very manners with which they strive to inspire others.

As often, therefore, as we suppose a people applying themselves to the advancement of foreign trade, we must simplify our ideas, by dismissing all political combinations of other circumstances; that is to say, we must suppose this spirit universal, and then point out the principles which influence the success of it.

We must encourage oeconomy, frugality, and a simplicity of manners, discourage the consumption of every thing that can be exported, and excite a taste for superfluity in neighbouring nations. When such a system can no more be supported to its full extent, by the scale of foreign demand becoming positively lighter; then in order to set the balance even again, without taking any thing out of the heavier scale, and to preserve and to give bread to those who have enriched the state; an additional home consumption, proportioned to the deficiency of foreign demand, must be encouraged. For were the same simplicity of manners still kept up, the infallible consequence would be a forced restitution of the balance, by the distress, misery, and at last extinction of the supernumerary workmen.

I must therefore, upon such occasions, consider the introduction of luxury, or superfluous consumption, as a rational and moral consequence of the deficiency of foreign trade.

I am, however, far from thinking that the luxury of every modern state, is in proportion only to such failure; and I readily admit, that many examples may be produced where the progress of luxury at home and the domestic competitions with strangers who come to market, have been the cause both of the decline and extinction of their foreign trade but as my business is chiefly to point out principles, and to shew their effects, it is here sufficient to observe, that in proportion as foreign trade declines, either a proportional augmentation upon home consumption must take place, or a number of the industrious, proportioned to the diminution of former consumption, must decrease. By the first, what I call a natural restitution of the balance is brought about, from the principles above deduced; by the second, what I call a forced one.

Here then is an example, where the introduction of luxury may be a rational and prudent step of administration; and as long as the progress of it is not accelerated from any other motive, but that of preserving the industrious, by giving them employment; the same spirit, under the direction of an able statesman, will
soon throw industry into a new channel, better calculated for
reviving foreign trade, and for promoting the public good, by
substituting the call of foreigners instead of that of domestic
luxury.

I hope, from what I have said, that the political effects of
luxury, or the consumption of superfluity, are sufficiently
understood. These I have hitherto considered as advantageous to
those classes only who are made to subsist by them; I reserve for
another occasion the pointing out how they influence the
imposition of taxes, and how the abuse of consumption in the rich
may affect the prosperity of a state.

So soon as all foreign trade has come to a stop, without a
scheme for recalling it, and domestic consumption has filled up
its place in consuming the work, and giving bread to the
industrious, we fund ourselves obliged to reason again upon the
principles of the first book. The statesman has once more both
the producers and the consumers under his care. The consumers can
live without employment, the producers cannot. The first seldom
have occasion for the statesman's protection; the last constantly
stand in need of it. There is a perpetual fluctuation in the
balance between these two classes, from which a multitude of new
principles arise; and these render the administration of
government infinitely more difficult, and require superior
talents in the person who is at the helm. I shall here point out
the most striking effects only of the fluctuation and overturn of
this new balance, which in the subsequent chapters shall be more
fully illustrated.

First, In proportion as the consumers become extravagant, the
producers become wealthy; and when the former become bankrupts,
the latter fill their place.

Secondly, As the former become frugal and oeconomical, the
latter languish; when those begin to hoard, and to adopt a simple
life, these are extinguished: all extremes are vicious.

Thirdly, If the produce of industry consumed in a country
surpass the income of those who do not work, the balance due by
the consumers must be paid to the suppliers by a proportional
alienation of their funds. This vibration of the balance gives a
very correct idea of what is meant by relative profit and loss.
The nation here loses nothing by the change produced.

Fourthly, When, on the other hand, the annual produce of
industry consumed in a country, does not amount to the value of
the income of those who do not work, the balance of income saved;
must either be locked up in chests, made into plate, lent to
foreigners, or fairly exported as the price of foreign
consumption.

Fifthly, The scales stand even when there is no balance on
either side; that is, when the domestic consumption is just
equivalent to the annual income of the funds. I do not pretend to
decide at present whether this exact equilibrium marks the state
of perfection in a country where there is no foreign trade, (of
which we are now treating,) or whether it would be better to have
small vibrations between the two scales; but I think I may say,
that all subversions of the balance on either side must be
hurtful, and therefore should be prevented.

Let this suffice at present, upon a subject which shall be
more fully treated of afterwards.

Let us next fix our attention upon the interests of a people
entirely taken up in the prosecution of foreign trade. So long as
this spirit prevails, I say, that it is the duty of a statesman
to encourage frugality, sobriety, and an application to labour in
his own people, and to excite in foreign nations a taste for
superfluities as much as possible.

While a people are occupied in the prosecution of foreign trade, the mutual relations between the individuals of the state, will not be so intimate as when the producers and consumers live in the same society; such trade implies, and even necessarily creates a chain of foreign dependences; which proportionally diminish the mutual dependence which formerly subsisted among the citizens. Now the use of dependences, I have said, is to form a band of society, capable of making the necessitous subsist out of the superfluities of the rich, and to keep mankind in peace and harmony with one another.

Trade, therefore, and foreign communications, form a new kind of a society among nations; and consequently render the occupation of statesman more complex. He must, as before, be attentive to provide food, other necessaries and employment for all his people; but as the foreign connections make these very circumstances depend upon the entertaining a good correspondence with neighbouring nations, he must acquire a proper knowledge of their domestic situation, so as to reconcile, as much as may be, the interests of both parties, by engaging the strangers to furnish articles of the first necessity, when the precious metals cannot be procured; and to accept, in return, the most consumable superfluities which industry can invent. And, last of all, he must inspire his own people with a spirit of emulation in the exercise of frugality, temperance, oeconomy, and an application to labour and ingenuity. If this spirit of emulation be not kept up, another will take place; for emulation is inseparable from the nature of man; and if the citizens cannot be made to vie with one another, in the practice of moderation, the wealth they must acquire, will soon make them vie with strangers, in luxury and dissipation.

While a spirit of moderation prevails in a trading nation, it may rest assured, that as far as in this particular it excels the nations with whom it corresponds, so far will it increase the proportion of its wealth, power, and superiority, over them. These are lawful pursuits among men, when purchased by success in so laudable an emulation.

If it be true, that superfluity, intemperance, prodigality, and idleness, qualities diametrically opposite to the former, corrupt the human mind, and lead to violence and injustice; is it not very wisely calculated by the Author of all things, that a sober people, living under a good government should, by industry and moderation, necessarily acquire wealth, which is the best means of warding off the violence of those, with whom they are bound in the great society of mankind? And is it not also most wisely ordained, that in proportion as a people contract vicious habits, which may lead to excess and injustice, the very consequence of their dissipation (poverty) should deprive them of the power of doing harm? But such reflections seem rather to be too great a refinement on my subject, and exceed the bounds of political oeconomy.

When we treat of a virtuous people applying to trade and industry, let us consider their interest only, in preserving these sentiments; and examine the political evil of their falling off from them. When we treat of a luxurious nation, where the not-working part is given to excesses in all kinds of consumption, and the working-part to labour and ingenuity, in order to supply them, let us examine the consequences of such a spirit, with respect to foreign trade: and if we find, that a luxurious turn in the rich is prejudicial to it, let us try if we can discover the methods for engaging the inhabitants to correct
their manners from a motive of self-interest. These things
premised.

I shall now give a short sketch of the general principles
upon which a system of foreign trade may be established, and
preserved as long as possible; and of the methods by which it may
be again recovered, when, from the natural advantages and
superior ability of administration in rival nations, (not from
vices at home,) a people may have lost for a time every advantage
they used to draw from their foreign commerce.

The first general principle is to employ, as usefully as
possible, a certain number of the society, in producing objects
of the first necessity, always more than sufficient to supply the
inhabitants; and to contrive means of enabling every one of the
free hands to procure subsistence for himself, by the exercise of
some species of industry.

These first objects compassed, I consider the people as
abundantly provided with what is purely necessary; and also with
a surplus prepared for an additional number of free hands, so
soon as a demand can be procured for their labour. In the mean
time, the surplus will be an article of exportation; but no
sooner will demand come from abroad, for a greater quantity of
manufactures than formerly, than such demand will have the effect
of gradually multiplying the inhabitants up to the proportion of
the surplus above mentioned, provided the statesman be all along
careful to employ these additional numbers, which an useful
multiplication must have produced, in supplying the additional
demand: then with the equivalent they receive from strangers,
they will at the same time enrich the country, and purchase for
themselves that part of the national productions, which had been
permitted to be exported, for want only of a demand for it at
home.

He must, at the same time, continue to give a proper
couragement to the advancement of agriculture, in order that
there may be constantly found a surplus of subsistence (for
without a surplus there can never be enough); this must be
allowed to be exported, and ought to be considered as the
provision of those industrious hands which are yet unborn.

He must cut off all foreign competition, above a certain
standard price, for that quantity of subsistence which is
necessary for home consumption; and, by premiums upon
exportation, he must discharge the farmers of any superfluous
load, which may remain upon their hands when prices fall too low.
This important matter shall be explained at large in another
place, when we come to treat of the policy of grain.

If natural causes should produce a rise in the price of
subsistence, which cannot be brought down by any encouragement he
can give to agriculture, he must then lay the whole community
under contribution, in order to indemnify those who work for
strangers, for the advance upon the price of their food; or he
must indemnify the strangers in another way, for the advance in
the price of manufactures.

He must consider the manufactures of superfluity, as wrought
up for the use of strangers, and discourage all domestic
competition for them, by every possible means.

He must do what he can, constantly to proportion the supply
to the demand made for them; and when the supply necessarily
comes to exceed the demand, in spite of all his care, he must
then consider what remains over the demand, as a superfluity of
the strangers; and for the support of the equal balance between
work and demand, he must promote the sale of this superfluity
even within the country (under certain restrictions however),
until the hands employed in such branches where a redundancy is found, can be more usefully set to work in another way.

He must consider the advancement of the common good as a direct object of private interest to every individual, and by a disinterested administration of the public money, he must plainly make it appear that it is so.

From this principle flows the authority, vested in all governments, to load the community with taxes, in order to advance the prosperity of the state. And this object can be nowise better obtained than by applying the amount of them to the keeping an even balance between work and demand. Upon this the health of a trading state principally depends.

If the failure of foreign demand be found to proceed from the superior natural advantages of other countries, he must double his diligence to promote luxury among his neighbours; he must support simplicity at home; he must increase his bounties upon exportation; and his expence in relieving manufactures, as oft as the price of their industry falls below the expence of their subsistence.

While these operations are conducted with coolness and perseverance, while the allurements of the wealth acquired do not frustrate the execution, the statesman may depend upon seeing foreigners return to his ports, so soon as their own dissipation, and want of frugality, come to compensate the advantages which nature had formerly given them over their frugal and industrious neighbours.

If this plan be pursued, foreign trade will increase in proportion to the number of inhabitants; and domestic luxury will serve as an instrument only in the hands of the statesman to increase demand at home, when the supply becomes too great for foreign consumption. In other words, the rich citizens will be engaged to consume what is superfluous, in order to keep the balance even in favour of the industrious, and in favour of the nation.

The whole purport of this plan is to point out the operation of three very easy principles.

The first, That in a country entirely taken up with the object of foreign trade, no competition should be allowed to come from abroad for articles of the first necessity, and principally for food, so as to raise prices beyond a certain standard.

The second, That no domestic competition should be encouraged upon articles of superfluity, so as to raise prices beyond a certain standard.

The third, That when these standards cannot be preserved, and that, from natural causes, prices get above them, public money must be thrown into the scale to bring prices to the level of those of exportation.

The greater the extent of foreign trade in any nation is, the lower these standards must be kept; the less the extent of it is, the higher they may be allowed to rise. Consequently,

Were nobody in a nation employed in producing the necessaries of life, and all the industrious employed in supplying other articles of consumption, the prices of necessaries might be allowed to fall as low as possible. There would be no occasion for a standard in favour of those who live by producing them.

Were no man in the state employed in supplying strangers, the prices of superfluities might be allowed to rise as high as possible, and a standard would also become useless, as the sole design of it is to favour exportation.

But as neither of these suppositions can ever take place, and as in every nation there is a part employed in producing, and a
part in consuming; and as it is the surplus only of industry which can be exported; a standard is necessary for supporting the reciprocal interests of both parties at home; and the public money must be made to operate upon the price of the surplus of industry only so as to make it exportable, even in cases where the national prices upon home consumption have got up beyond the proper standard. Let me set this matter in another light, the better to communicate an idea which I think is still a little obscure.

Were food and other necessaries the pure gift of nature in any country, I should have laid it down as a principle to discourage all foreign competition for them, either below or above any certain standard; because in this case the lower the price of them be, it is so much the better, since no inconvenience can result from thence to any industrious person. But as the production of these is in itself a manufacture, or an object of industry, a certain standard must be kept up in favour of those who live by producing them.

On the other hand, as to the manufactures of superfluity, domestic competition should be discouraged, beyond a certain standard, in order that prices may not rise above those offered by foreigners; but it might be encouraged below the standard, in order to promote consumption and give bread to manufacturers. But were there no foreign demand at all, there would be no occasion for any standard, and the nation's wealth would thereby circulate only with greater or less rapidity in proportion as prices might rise or fall. The study of the balance between work and demand, would still continue a principal object of attention in the statesman, not with a view to enrich the state, but in order to preserve every member of it in health and vigour. On the other hand, the object of a standard regards foreign trade, and the acquisition of new wealth, at the expense of other nations. The rich, therefore, of a trading state must not be allowed to increase their consumption of superfluities to the full proportion of the constant supply; because an ample surplus must remain for exportation; and the only way to prevent foreigners from supplying themselves, is to prevent prices from getting up beyond the standard, at which these foreigners can produce them.

Farther, were every one of the society in the same pursuit after industry, there would be no occasion for the public to be laid under contribution for advancing the general welfare; but as there is constantly a part employed in enriching the state, by the sale of their work to strangers, and a part employed in making these riches circulate at home, by the consumption of superfluities, I think it is a good expedient to throw a part of domestic circulation into the public coffers by the name of taxes; that when the consequences of private wealth come necessarily to raise prices, a statesman may be enabled to defray the expense of bounties upon that part which can be exported, and thereby enable the nation to continue to supply foreigners at the same price as formerly.

The farther these principles can be carried into execution, the longer a state will flourish; and the longer she will support her superiority. When foreign demand begins to fail, so as not to be recalled, either industry must decline, or domestic luxury must begin. The consequences of both may be easily guessed at, and the principles which influence them shall be particularly examined in the following chapter.

Chap. XVI
Illustration of some Principles laid down in the former Chapter, relative to the Advancement and Support of foreign Trade

I am now to give an illustration of some things relating to that species of trade which is carried on with other nations, laid down, I think, in too general terms in the former chapter.

I have constantly in view to separate and distinguish the principles of foreign trade, from those which influence the advancement of an inland commerce, and a brisk circulation only; operations which produce very different effects, equally meriting the attention of a statesman.

The very existence of foreign trade, implies a separate interest between those nations who are found on the opposite sides of the mercantile contract, namely the buyers and the sellers, as both endeavour to make the best bargain possible for themselves. These transactions imply a mutual dependence upon one another, which may either be necessary or contingent. It is necessary, when one of the nations cannot subsist without the assistance of the other, as is the case between the province of Holland, and those countries which supply it with grain; or contingent, when the wants of a particular nation cannot be supplied by their own inhabitants, from a want of skill and dexterity, only.

Wherever, therefore, one nation finds another necessarily depending upon her for particular branches of traffic, there is a certain foundation for foreign trade; where the dependence is contingent, there is occasion for management, and for the hand of an able statesman.

The best way to preserve every advantage is, to examine how far they are necessary, and how far they are only contingent, to consider in what respect the nation may be most easily rivalled by her neighbours, and in what respect she has natural advantages which cannot be taken from her.

The natural advantages are chiefly to be depended on: France, for example, never can be rivalled in her wines. Other countries may enjoy great advantages from their situation, mines, rivers, sea-ports, fishing, timber, and certain productions proper to the soil. If you abstract from these natural advantages, all nations are upon an equal footing as to trade. Industry and labour are no properties attached to place, any more than oeconomy and sobriety.

This proposition may be called in question, upon the principles of M. de Montesquieu, who deduces the origin of many laws, customs, and even religions, from the influence of climate. This great man reasoned from fact and from experience, and from the power and tendency of natural causes, to produce certain effects, when they are not checked by other circumstances; but in my method of treating this subject, I do not suppose that these causes are ever to be allowed to produce their natural and immediate effects, when such effects would be followed by a political inconvenience: but I constantly suppose a statesman at the head of government, who makes every circumstance concur in promoting the execution of the plan he has laid down.

First, If a nation then has formed a scheme of being long great and powerful by trade, she must first apply closely to the manufacturing every natural produce of the country. For this purpose a sufficient number of hands must be employed: for if hands be found wanting, the natural produce will be exported without receiving any additional value from labour; and the consequences of this natural advantage will be lost.
The price of food, and all necessaries for manufacturers, must be found at an easy rate.

And, in the last place, if economy and sobriety in the workmen, and good regulations on the part of the statesman, are not kept up, the end will not be obtained: for if the manufacture, when brought to market, do not retain the advantages which the manufacturer had in the beginning, by employing the natural produce of the country; it is the same thing as if the advantage had not existed. I shall illustrate this by an example.

I shall suppose wool to be better, more plentiful, and cheaper, in one country than in another, and both to be rivals in the woolen trade. It is natural that the last should desire to buy wool of the first, and that the other should desire to keep it at home, in order to manufacture it. Here then is a natural advantage which the first country has over the latter, and which cannot be taken from her. I shall suppose that subsistence is as cheap in one country as in the other; that is to say, that bread and every other necessary of life is at the same price. If the workmen of the first country (by having been the founders of the cloth manufacture, and by having had, for a long tract of years, so great a superiority over other nations, as to make them, in a manner, absolutely dependent upon them for cloths) shall have raised their prices from time to time; and if, in consequence of large profits, long enjoyed without rivalship, these profits shall have been consolidated with the real value, in consequence of an habitually greater expense in living, which implies an augmentation of wages; this country may thereby lose all the advantages it had from the low price and superior quality of its wool. But if, on the other hand, the workmen in the last country work less, be less dextrous, pay extravagant prices for wool at prime cost, and be at great expense in carriage; if manufactures cannot be carried on successfully, but by public authority, and if private workmen be crushed with excessive taxes upon their industry; all the accidental advantages which the last country had over the first, may come to be more than balanced, and the first may regain those which nature first had given her. But this should by no means make the first country rest secure. These accidental inconveniences found in the rival nation may come to cease; and therefore her only real security for this branch, will be the cheapness of the workmanship.

Secondly, In speaking of a standard price, for goods in the last chapter, I established a distinction between one regulated by the height of foreign demand, and another kept as low as the possibility of supplying the manufacture can admit. This requires a little explanation.

It must not here be supposed that a people, from a principle of public spirit, will ever be engaged to relinquish the profit of a rise in foreign demand; and as this rise may proceed from circumstances and events which are entirely hid from the manufacturers, such revolutions are unavoidable. We must therefore restrain the generality of our former proposition, and observe, that the indispensable vibrations of this foreign demand do no harm; but that the statesman should be constantly on his guard to prevent the subversion of the balance, or the smallest consolidation of extraordinary profits with the real value. This he may accomplish, as has been observed, by multiplying hands in those branches of exportation, upon which profits have risen. This will increase the home supply, and frustrate his own people of extraordinary gains, which would otherwise terminate in a prejudice to foreign trade.

A statesman may sometimes, out of a principle of benevolence,
perhaps of natural equity towards the classes of the industrious, as well as from sound policy, permit extraordinary profits, as an encouragement to some of the more elegant arts, which serve as an ornament to a country; which establish a reputation for taste and refinement in favour of a people, and thereby make strangers prefer articles of their production, which have no superior merit but the name of the country they come from: but even these, he never ought to allow to rise so high in the price as to prove an encouragement to other nations to establish a successful rivalship.

Thirdly, The encouragement recommended to be given to the domestic consumption of superfluities, as oft as the foreign demand for them happens to fall so low as to be followed with the distress of the workmen, requires a little farther explanation. If what I laid down in the last chapter with respect to this encouragement be taken literally, I own it appears an absurd supposition, because it both implies a degree of public spirit in those who are in a capacity to purchase the superfluities, no where to be met with, and at the same time a self-denial, in discontinuing the demand, so soon as another branch of foreign trade is opened for the employment of the industrious; one and the other being equally contrary to the principles upon which we have founded the whole scheme of our political oeconomy.

I have elsewhere observed, that were revolutions to happen as suddenly as I am obliged to represent them, all would go into confusion. What, therefore, is recommended upon such an exigence comes to this. That when a statesman finds, that the natural taste of his people does not lead them to profit of the surplus of commodities which lie upon hand, and which used to be exported, he should interpose his authority and management in such a way as to prevent the distress of the workmen, and when, by a sudden fall in a foreign demand, this distress becomes unavoidable, without a more powerful interposition, he should then himself become the purchaser, if others will not; or, by premiums or bounties on the exportation of the surplus which lies upon hand, promote the sale of it at any rate, until the supernumerary hands can be otherwise provided for. And although I allow that the rich people of a state are not commonly led, from a principle either of public spirit or self-denial, to concur in such political operations; yet we cannot deny, that it is in the power of a good governor, by exposing the political state of certain classes of the people, to prevail with men of substance to join in schemes for their relief; and this is all I intend to recommend in practice. My point of view is to lay down the principles, and I never recommend them farther than they may be rendered possible in execution, by preparatory steps, and by properly working on the spirit of the people.

Chap. XVII

Symptoms of Decay in foreign Trade

If manufacturers be found without employment, we are not immediately to accuse the statesman, nor conclude that it proceeds from a decay of trade, until the cause of it be inquired into. If upon examination it be found, that for some years past food has been at a higher rate than in neighbouring countries, the statesman may be to blame: for it is certain, that a trading nation, by turning part of her commerce into a proper channel, may always be able to establish a just balance in this
particular. And though it be not expedient in years of scarcity to bring the price of grain very low, yet it is generally possible to keep it at the rate it sells for in all rival nations, which, with regard to the present point, is the same thing.

If this want of employment for manufacturers do not proceed from the high prices of living, but for want of commissions from the merchants, the causes of this diminution of demand must be examined into. It may be accidental, and happen from causes which may cease in a little time, and trade may return to flourish as before. It may also happen upon the establishment of new undertakings in different places of the country, from which, by reason of some natural advantage, or a more frugal disposition in the workmen, or from the proximity of place; certain markets may be supplied, which formerly were furnished by those industrious people who are now found to be without employment. In these last suppositions, the distress of the manufacturers is no proof of any decay of trade in general, but, on the contrary, it may contribute to destroy the bad effects of consolidated profits, by obliging those who formerly shared them, to abandon the ease of their circumstances, and to submit a-new to a painful industry, barely sufficient to procure subsistence. When such revolutions are sudden, they prove hard to bear, and throw people into great distress. It is partly to prevent such inconveniences, that we have recommended the lowest standard possible in the price of articles of exportation.

Two causes there are, which very commonly mark a decline of trade, to wit; 1. When foreign markets, usually supplied by the trading nation, begin to be furnished, let it be in the most trifling article, by others, not used to supply them. Or, 2. When the country itself is furnished from abroad with such manufactures as were formerly made at home.

These circumstances prove one of two things, either that there are workmen in other countries, who, from advantages which they have acquired by nature, or by industry and frugality, finding a demand for their work, take the bread out of the mouths of those formerly employed, and deprive them of certain branches of their foreign trade: or, that these foreign workmen, having profited of the increased luxury and dissipation of the former traders, have begun to supply the markets with certain articles of consumption, the profits upon which being small, are, without much rivalship, insensibly yielded up to them by the workmen of the other trading nation, who find better bread in serving their own wealthy countrymen.

Against the first cause of decline, I see no better remedy than patience, as I have said already, and a perseverance in frugality and oeconomy, until the unwary beginners shall fall into the inconveniences generally attending upon wealth and ease.

The second cause of decline it is far more difficult to remove. The root of it lies deep, and is ingrafted with the spirit and manners of the whole people, high and low. The lower classes have contracted a taste for superfluity and expence which they are enabled to gratify, by working for their own countrymen; while they despise the branches of foreign trade as low and unprofitable. The higher classes again depend upon the lower classes, for the gratification of a thousand little trifling desires, formed by the taste for dissipation, and supported by habit, fashion, and a love of expence.

Here then is a system set on foot, whereby the poor are made rich, and the rich are made happy, in the enjoyment of a perpetual variety of every thing, which can remove the
inconveniences to which human nature is exposed. Thus both parties become interested to support it, and vie with one another in the ingenuity of contriving new wants; the one from the immediate satisfaction of removing them; the other from the profit of furnishing the means, and from the hopes of one day sharing in them.

But even for this great evil, the very nature of man points out a remedy. It is the business of a statesman to lay hold of it. The remedy flows from the instability of every taste not founded upon rational desires.

In every country of luxury, we constantly find certain classes of workmen in distress, from the change of modes. Were a statesman upon his guard to employ such as are forced to be idle, before they betake themselves to new inventions, for the support of the old plan, or before they contract an abandoned and vicious habit, he would get them cheap, and might turn their labour both to the advantage of the state and to the discouragement of luxury.

I confess, however, that while a luxurious taste in the rich subsists, industrious people will always be ready to supply the instruments of it to the utmost extent; and I also allow, that such a taste has infinite allurements, especially while youth and health enable a rich man to in it. Those, however, who are systematically luxurious, that is, from a formed taste and confirmed habit, are but few, in comparison of those who become so from levity, vanity, and the imitation of others. The last are those who principally support and extend the system; but they are not the most incorrigible. Were it not for imitation, every age would seek after, and be satisfied with the gratification of natural desires. Twenty-five might think of dress, horses, hunting, dogs, and generous wines: forty, of a plentiful table, and the pleasures of society: sixty, of coaches, elbow-chairs, soft carpets, and instruments of ease. But the taste for imitation blends all ages together. The old fellow delights in horses and fine clothes; the youth rides in his chariot on springs, and lolls in an easy chair, large enough to serve him for a bed. All this proceeds from the superfluity of riches and taste for imitation, not from the real allurements of ease and taste for luxury, as every one must feel, who has conversed at all with the great and rich. Fashion, which I understand here to be a synonimous term for imitation, leads most people into superfluous expence, which is so far from being an article of luxury, that it is frequently a load upon the person who complies with it. All such branches of expence, it is in the power of a statesman to cut off, by setting his own example, and that of his favourites and servants, against the caprice of fashion.

The levity and changeableness of mankind, as I have said, will even assist him. A generation of oeconomists is sometimes found to succeed a generation of spendthrifts; and we now see, almost over all Europe, a system of sobriety succeeding an habitual system of drunkenness. Drunkenness, and a multitude of useless servants, were the luxury of former times.

Every such revolution may be profited of by an able statesman, who must set a good example on the one hand, while, on the other, he must profit of every change of taste, in order to re-establish the foreign trade of his subjects. An example of frugality, in the head of a luxurious people, would do finite harm, were it intended to reform the morals of the rich only, without indemnifying the poor for the diminution upon consumption.

At the same time, therefore, that luxury comes to lose ground
at home, a door must be opened, to serve as an out-let for the work of those hands which must be thereby made idle; and which, consequently must fall into distress.

This is no more than the principle before laid down, in the fifteenth chapter, reversed: there we said, that when foreign demand begins to decline, domestic luxury must be made to increase, in order to soften the shock of the sudden revolution in favour of the industrious. For the same reason here we say, that foreign trade must be opened upon every diminution of domestic luxury.

How few Princes do we find either frugal or magnificent from political considerations! And, this being the case, is it not necessary to lay before them the natural consequences of the one and the other? And it is still more necessary to point out the methods to be taken in order to avoid the inconveniences which may proceed from either.

Under a prodigal administration, the number of people will increase. The statesman therefore should keep a watchful eye upon the supplying of subsistence. Under a frugal reign, numbers will diminish, if the statesman do not open every channel which may carry off the superfluous productions of industry. Here is the reason: a diminution of expence at home, is a diminution of employment; and this again implies a diminution of people; because it interrupts the circulation of the subsistence which made them live; but if foreign trade he made to fill up the void, the nation will preserve its people, and the savings of the Prince will be compensated by the balance coming in from strangers.

These topics are delivered as hints only; and the amplification of them might not improperly have a place here; did I not expect to bring them in to greater advantage, after examining the principles of taxation, and pointing out those which direct the application of public money.

Chap. XVIII

Methods of lowering the Price of Manufactures, in order to make them vendible in foreign Markets

The multiplicity of relations between the several parts of political oeconomy, forces me to a frequent repetition of principles. I have no other rule to judge whether such repetitions be superfluous, or necessary, but by the tendency they have to give me a more distinct view of my subject. This is commonly the case when the same principles are applied to different combinations of circumstances.

Almost every thing to be said on the head mentioned in the title of this chapter, has been already taken notice of; and my present intention is merely to lay together ideas which appear scattered, because they have been occasionally brought in by their relations to other matters.

The methods of lowering the price of manufactures, so as to render them exportable, are of two kinds.

The first, such as proceed from a good administration, and which bring down prices within the country, in consequence of natural causes.

The second, such as operate upon that part only which comes to be exported in consequence of a proper application of public money.

As I have not yet inquired into the methods of providing a
public fund, it would, I think, be contrary to order to examine in this place the doctrine of premiums for bringing down the price of manufactures. This operation will come in more naturally afterwards, and the general distinction here mentioned, is only introduced by the by, that my readers may retain it and apply it as we go along.

The end proposed is to lower the price of manufactures, so that they may be exported. The first thing therefore to be known, is the cause from whence it happens, that certain manufactures cannot be furnished at home so cheap as in other countries; the second, how to apply the proper remedy for lowering the price of them.

The causes of high prices, that is, of prices relatively higher than they are found to be in other nations, are reducible to four heads; which I shall lay down in their order, and then point out the methods of removing them likewise, in their order.

First, The consolidation of high profits with the real value of the manufacture. This cause operates in countries where luxury has gained ground, and where domestic competition has called off too many of the hands, which were formerly content to serve at a lower price, and for smaller gains.

Secondly, The rise in the price of articles of the first necessity. This cause operates when the progress of industry has been more rapid than that of agriculture. The progress of industry, as we have shewn, necessarily implies an augmentation of useful inhabitants; and as these have commonly wherewithal to purchase subsistence, the moment their numbers swell above the proportion of the food produced by agriculture, or above what is found in the markets of the country, or brought from abroad, they enter into competition and raise the price of it. Here then let it be observed, by the by, that what raises the price of subsistence is the augmentation of the number of useful inhabitants, that is, of such as are easy in their circumstances. Let the wretched be ever so many, let abusive procreation go on ever so far, such inhabitants will have little effect in raising the price of food, but a very great one in increasing the misery of their own class. A proof of this is to be met with in many provinces where the number of poor is very great, and where at the same time the price of necessaries is very low; whereas no instance can be found where a number of the industrious being got together, does not occasion an immediate rise on most of the articles of subsistence.

Thirdly, The natural advantages of other countries. This operates in spite of all the precautions of the most frugal and laborious people. Let them deprive themselves of every superfluity; let them be ever so diligent and ingenious; let every circumstance be improved to the utmost by the statesman for the establishment of foreign trade; the advantage of climate and situation may give such a superiority to the people of another country, as to render a direct competition with them impossible.

Fourthly, The superior dexterity of other nations in working up their manufactures, their knowledge in the science of trade, the promptitude of their payments, the advantage they have in turning their money to account in the intervals of their own direct circulation, the superior abilities of their statesman, the application of their public money, in one word, the perfection of their political oeconomy.

Before I enter upon the method of removing these several inconveniences, I must observe, that as we are at present treating of the relative height of the price of manufactures, a competition between nations is constantly implied. It is this
which obliges a statesman to be principally attentive to the rise of prices. The term competition is relative to, and conveys the idea of emulation between two parties striving to compass the same end. I must therefore distinguish between the endeavours which one nation makes to retain a superiority already got, and the endeavours which another nation makes in order to acquire it. The first I shall call a competition to retain; the second, a competition to acquire.

The first three heads represent the inconveniences to which the competitors to retain are liable; and the fourth comprehends those to which the competitors to acquire are most commonly exposed.

Having digested our subject into order, I shall run through the principles which severally influence the removing of every inconvenience, whether incident to a nation whose foreign trade is already well established, or to another naturally calculated for entering into a competition for the acquisition of it.

In proposing a remedy for the particular causes of the rise of prices above mentioned, we must suppose every one entirely simple, and uncompounded with the others; a thing which in fact seldom happens. This I do for the sake of distinctness; and the principal difficulty in practice is to combine the remedies in proportion to the complication of the disease. I now come to the first of the four causes of high prices, to wit, consolidated profits.

The whole doctrine of these has been abundantly set forth in the 10th chapter. We there explained the nature of them, shewed how the subversion of the balance, by a long preponderancy of the scale of demand, had the effect of consolidating profits in a country of luxury; and observed, that the reducing them to the proper standard could never fail of bringing those who had long enjoyed them, into distress.

The question now before us is how to reduce them, when foreign trade cannot otherwise be retained, let the consequences be ever so hurtful to certain individuals. When the well being of a nation comes in competition with a temporary inconvenience to some of the inhabitants, the general good must be preferred to particular considerations.

I have observed above, that domestic luxury, by offering high prices upon certain species of industry, calls off many hands employed to supply the articles of exportation, upon which profits are generally very moderate. The first natural and immediate effect of this, is, to diminish the hands employed in furnishing the foreign demand; consequently, to diminish the supply; consequently, to occasion a simple competition on the side of the strangers, who are the purchasers; consequently, to augment profits to the furnishers until by the rise and consolidation of such profits the market is deserted.

The very progress here laid down, points out the remedy. The number of hands employed in these particular branches must be multiplied; and if the luxurious taste and wealth of the country prevent any one who can do better, from betaking himself to a species of industry lucrative to the nation, but ungrateful to those who exercise it, the statesman must collect the children of the wretched into workhouses, and breed them to this employment, under the best regulations possible for saving every article of necessary expence; here likewise may be employed occasionally those above mentioned, whom the change of modes may have cast out of employment, until they can be better provided for. This is also an outlet for foundlings, since many of those who work for foreign exportation, are justly to be ranked in the lowest
classes of the people; and in the first book we proposed, that every one brought up at the expence of public charity, should be thrown in for recruiting these classes, which can with greatest difficulty support their own numbers by propagation.

Here let me observe, that although it be true in general, that the greatest part of exportable manufactures do yield but very middling profits, from the extension of industry in different countries, yet sundry exceptions may be found; especially in nations renowned for their elegance of taste. But how quickly do we see these lucrative branches of foreign trade cut off, in consequence of the very inconvenience we here seek a remedy for. The reason is plain. When strangers demand such manufactures, they share only in the instruments of foreign luxury, which bring every where considerable profits to the manufacturer. These high profits easily establish a rivalship in favour of the nation to whom they are supplied; because a hint is sufficient to enable such as exercise a similar profession at home, to supply their own inhabitants. This being the case, an able statesman should be constantly attentive to every growing taste among foreign nations for the inventions of his people; and so soon as his luxurious workmen have set any one on foot, he may throw this branch into the hands of the most frugal, in order to support it, and then give them such encouragement as to prevent the rivalship of those strangers at least, who are accustomed to work for larger profits. This is one method of turning a branch of luxury into an article of foreign trade. Let me illustrate this by an example.

What great advantages do not the French reap from the exportation of their modes? But how quickly do we find their varnishes, gauzes, ribbands, and colifichets, imitated by other nations? For no other reason but because of the large, or consolidated profits enjoyed by the French workmen themselves, who, fertile in new inventions, and supported by their reputation for the elegance of their taste in matters of dress, have got into possession of the right of prescribing to all Europe the standard of taste in articles of mere superfluity. This however is no permanent prerogative; and that elegant people, by long setting the example, and determining the standard of refinement in some luxurious arts, will at last inspire a similar taste into their scholars, who will thereby be enabled to supplant them. Whereas were they careful to supply all their inventions at the lowest prices possible, they would ever continue to be the only furnishers.

The method therefore of reducing consolidated profits, whether upon articles of exportation, or home consumption, is to increase the number of hands employed in supplying them; and the more gradually this change is made to take place, the fewer inconveniences will result to those who will thereby be forced to renounce them.

A country which has an extensive territory, and great opportunities of extending her agriculture (such as in a former chapter I supposed the present situation of France to be) may, under a good administration, find the progress of luxury very compatible with the prosperity of her foreign trade; because inhabitants may be multiplied at discretion. But so soon as subsistence becomes hard to be obtained, this expedient is cut off. A statesman must then make the best of the inhabitants he has, luxury must suffer a check; and those who are employed in supplying home consumption at high prices, must be made to reduce their consolidated profits, in order to bring the price of their manufactures within such bounds as to make them vendible in
foreign markets.

If manufacturers become luxurious in their way of living, it must proceed from their extraordinary profits. These they may still continue to have, as long as the produce of their work is consumed at home. But no merchant will pretend to sell it out of the country; because, in this case, he will find the labour of other people who are less luxurious, and consequently work cheaper, in competition with him.

To re-establish then the foreign trade, these consolidated profits must be put an end to, by attacking luxury when circumstances render an augmentation of people inconvenient, and prices will fall of course.

This will occasion great complaints among all sorts of tradesmen. The cry will be, that trade is ruined, manufacturers are starving, and the state is undone: but the truth will be, that manufacturers will, by their labour, begin to enrich their own nation, at the expense of all those who trade with her, instead of being enriched at the expense of their own countrymen; and by a revolution only in the balance of wealth at home.

It will prove very discouraging to any statesman to attempt a sudden reform of this abuse of consolidated profits, and to attack the luxury of his own people. The best way therefore is to prevent matters from coming to such a pass, as to demand so dangerous and difficult a remedy.

There is hardly a possibility of changing the manners of a people, but by a proper attention to the education of the youth. All methods, therefore, should be fallen upon to supply manufactures with new hands; and lest the contagion of example should get the better of all precautions, the seat of manufactures might be changed; especially when they are found in great and populous cities, where living is dear: in this case, others should be erected in the provinces where living is cheap. The state must encourage these new undertakings; numbers of children must be taken in, in order to be bred early to industry and frugality; this again will encourage people to marry and propagate, as it will contribute towards discharging them of the load of a numerous family. If such a plan as this be followed, how inconsiderable will the number of poor people become in a little time; and as it will insensibly multiply the useful inhabitants, out of that youth which recruited and supported the numbers of the poor, so the taxes appropriated for the relief of poverty may be then wholly applied, in order to prevent it.

Laws of naturalization have been often proposed in a nation, where consolidated profits have occasioned the inconveniences for which we have here been proposing a remedy. By this expedient many flatter themselves to draw industrious strangers into the country, who being accustomed to live more frugally, and upon less profits, may, by their example and competition, beat down the price of work among the inhabitants.

Several circumstances concur to defeat the success of this scheme. The first is, that consolidated profits are not the only inconvenience to be removed: there is also a complication of high prices upon many necessaries. Secondly, as no real change has been proposed as a concomitant of such naturalization-laws (such as a regulation for augmenting the supply of subsistence, and fixing the price of it within proper bounds) these strangers, who, as such, must be exposed to extraordinary expence, are not able to subsist, nor consequently to work so cheap as they did at home. Besides, what can be supposed to be their motive of coming, if it be not to have higher wages, and to live better?

Here then is a nation sending for strangers, in order that
they may work cheaper; and strangers flocking into the country in hopes of selling their work dearer. This is just the case with two friends who are about making a bargain; the seller imagines that his friend will not grudge a good price. The buyer, on the other hand, flatters himself that his friend will sell to him cheaper than to another. This seldom fails to produce discontent on both sides.

Besides, unless the quantity of food be increased, if strangers are imported to eat part of it, natives must in some degree starve and if you augment the quantity of food, and keep it at a little lower price than in neighbouring nations, your own inhabitants will multiply; the state may take great numbers of them into their service when young; they soon come to be able to do something in the manufacturing way; they may be bound for a number of years, sufficient to indemnify the public for the first expence; and the encouragement alone of having bread cheaper than elsewhere, will bring you as many strangers as you incline to receive, provided a continual supply of food can be procured in proportion to the increase of the people.

But I imagine that it is always better for a state to multiply by means of its own inhabitants, than by that of strangers; for many reasons which to me appear obvious.

We come now to the second cause of high prices, to wit, a rise in the value of the articles of the first necessity, which we have said proceeds from the progress of industry having outstripped the progress of agriculture. Let me set this idea in a clearer light; for here it is expressed in too general terms to be rightly viewed on all sides.

The idea of inhabitants being multiplied beyond the proportion of subsistence, seems to imply that there are too many already; and the demand for their industry having been the cause of their multiplication, proves that formerly there were too few. Add to this, that if, notwithstanding the rise upon the price of work proceeding from the scarcity of subsistence, the scale of home demand be found to preponderate, at the expence of foreign trade, this circumstance proves farther, that however the inhabitants may be already multiplied above the proportion of subsistence, their numbers are still too few for what is demanded of them at home; and for what is required of them towards promoting the prosperity of their country, in supporting their trade abroad.

From this exposition of the matter, the remedy appears evident: both inhabitants and subsistence must be augmented. The question comes to be, in what manner, and with what precautions, must these operations be performed?

Inhabitants are multiplied by reducing the price of subsistence to the value, which demand has fixed upon the work of those who are to consume it. This can in no other way be accomplished than by augmenting the quantity, by importation from foreign parts, when the country cannot be made to produce more of itself.

Here the interposition of a statesman is absolutely necessary; since great loss may often be incurred by bringing down the price of grain in a year of scarcity. Premiums, therefore, must be given upon importation, until a plan can be executed for the extending of agriculture; of which in another place. This must be gone about with the greatest circumspection; for if grain be thereby made to fall too low, you ruin the landed interest, and although (as we have said above) all things soon become balanced in a trading nation, yet sudden and violent revolutions, such as this must be, are always to be apprehended.
They are ever dangerous; and the spirit of every class of inhabitants must be kept up.

By a discredit cast upon any branch of industry, the hands employed in it may be made to abandon it, to the great detriment of the whole. This will infallibly happen, when violent transitions do not proceed from natural causes, as in the example here before us, namely, when the price of grain is supposed to be brought down, from the increase of its quantity by importation, and not by plenty. Because upon the falling of the market by importation, the poor farmer has nothing to make up for the low price he gets for his grain; whereas when the fall proceeds from plenty, he has an additional quantity.

In years, therefore, of general scarcity, a statesman should not, by premiums given, reduce the price of grain, but in a reciprocal proportion to the quantity wanted: that is to say, the more grain is wanted, the less the price should be diminished.

It may appear a very extensive project for any government to undertake to keep down the prices of grain, in years of general scarcity. I allow it to be politically impossible to keep prices low, because if all Europe be taken together, the produce of the whole is one with another consumed by the inhabitants; and in a year when there is a general scarcity, it would be very hard, if not impossible, (without having previously established a plan for this purpose) to make any nation live in plenty while others are starving. All therefore that is proposed, is to keep the prices of grain in as just a proportion as possible to the plenty of the year.

Now if a government do not interpose, this never can be the case. I shall suppose the inhabitants of a country to consume, in a year of moderate plenty, six millions of quarters of grain; if in a year of scarcity it shall be found, that one million of quarters, or indeed a far less quantity, be wanting, the five millions of quarters produced, will rise in their price to perhaps double the ordinary value, instead of being increased by one fifth only. But if you examine the case in countries where trade is not well established, as in some inland provinces on the continent, it is no extraordinary thing to see grain bearing three times the price it is worth in ordinary years of plenty, and yet if in such a year there were wanting six months’ provisions for the inhabitants of a great kingdom, all the rest of Europe would perhaps hardly be able to keep them from starving.

It is the fear of want and not real want, which makes grain rise to immoderate prices. Now as this extraordinary revolution in the rise of it, does not proceed from a natural cause, to wit, the degree of scarcity, but from the avarice and evil designs of men who hoard it up, it produces as bad consequences to that part of the inhabitants of a country employed in manufactures, as the fall of grain would produce to the farmers, in case the prices should be, by importation, brought below the just proportion of the quantity produced in the nation.

Besides the importation of grain, there is another way of increasing the quantity of subsistence very considerably, in some countries of Europe. In a year of scarcity, could not the quantity of food be considerably augmented by a prohibition to make malt liquors, allowing the importation of wines and brandies; or indeed without laying any restraint upon the liberty of the inhabitants as to malt liquors, I am persuaded that the liberty of importing wines duty free, would, in years of scarcity, considerably augment the quantity of subsistence.

This is not a proper place to examine the inconvenience which
might result to the revenue by such a scheme: because we are here talking of those expedients only which might be fallen upon to preserve a balance on foreign trade. An exchequer which is filled at the expense of this, will not continue long in a flourishing condition.

These appear to be the most rational temporary expedients to diminish the price of grain in years of scarcity; we shall afterwards examine the principles upon which a plan may be laid down to destroy all precariousness in the price of subsistence.

Precautions of another kind must be taken in years of plenty; for high prices occasioned by exportation are as hurtful to the poor tradesman as if they were occasioned by scarcity. And low prices occasioned by importation are as hurtful to the poor husbandman as if his crop had failed him.

A statesman therefore, should be very attentive to put the inland trade in grain upon the best footing possible, to prevent the frauds of merchants, and to promote an equal distribution of food in all corners of the country, and by the means of importation and exportation, according to plenty and scarcity, to regulate a just proportion between the general plenty of the year in Europe, and the price of subsistence; always observing to keep it somewhat lower at home, than it can be found in any nation rival in trade. If this method be well observed, inhabitants will multiply; and this is a principal step towards reducing the expense of manufactures; because you increase the number of hands, and consequently diminish the price of labour.

Another expedient found to operate most admirable effects in reducing the price of manufactures (in those countries where living is rendered dear, by a hurtful competition among the inhabitants for the subsistence produced) is the invention and introduction of machines. We have, in a former chapter, answered the principal objections which have been made against them, in countries where the numbers of the idle, or triflingly industrious are so great, that every expedient which can abridge labour is looked upon by some as a scheme for starving the poor. There is no solidity in this objection; and if there were, we are not at present in quest of plans for feeding the poor; but for accumulating the wealth of a trading nation, by enabling the industrious to feed themselves at the expense of foreigners. The introduction of machines is found to reduce prices in a surprising manner. And if they have the effect of taking bread from hundreds, formerly employed in performing their simple operations, they have that also of giving bread to thousands, by extending numberless branches of ingenuity, which, without the machines, would have remained circumscribed within very narrow limits. What progress has not building made within these hundred years? Who doubts that the convenience of great iron works, and saw mills, prompts many to build? But this taste has greatly contributed to increase, not to diminish, the number both of smiths and carpenters, as well as to extend navigation. I shall add only in favour of such expedients, that experience shews the advantage gained by certain machines to be more than enough to compensate every inconvenience arising from consolidated profits, and expensive living; and that the first inventors gain thereby a superiority which nothing but adopting the same invention can counterbalance.

The third cause of high prices we have said to be owing to the natural advantage which neighbouring nations reap from their climate, soil, or situation.

Here no rise of prices is implied in the country in question, they are only supposed to have become relatively high by the
opportunity other nations have had to furnish the same articles at a lower rate, in consequence of their natural advantages.

Two expedients may be used, in order to defeat the bad effects of a competition which cannot be got the better of in the ordinary way. The first is, to assist the branches in distress with the public money. The other is patience, and perseverance in frugality, as has been already observed. A short example of the first will be sufficient in this place to make the thing fully understood. I have already said, that I purposely postpone an ample dissertation upon the principles which influence such operations.

Let me suppose a nation which is accustomed to export to the value of a million sterling of fish every year, to be undersold in this article by another which has found a fishery on its own coasts, so abundant as to enable it to undersell the first by 20 per cent. In this case, let the statesman buy up all the fish of his subjects, and undersell his competitors at every foreign market, at the loss to himself of perhaps 250,000l. What is the consequence? That the million he paid for the fish remains at home, and that 750,000l. comes in from abroad for the prices of them. How is the 250,000l. to be made up? By a general imposition upon all the inhabitants. This returns into the public coffer, and all stands as it was. If this expedient be not followed, what will be the consequence? That those employed in the fishery will starve; that the fish taken will either remain upon hand, or be sold by the proprietors at a great loss; they will be undone, and the nation for the future will lose the acquisition of 750,000l. a year.

To abridge this operation premiums are given upon exportation, which comes to the same thing, and this is a refinement on the application of this very principle: but premiums are often abused. It belongs to the department of the coercive power of government to put a stop to such abuse. All I shall say upon the matter is, that if there be a crime called high treason, which is punished with greater severity than highway robbery, and assassination, I should be apt (were I a statesman) to put at the head of this bloody list, every attempt to defeat the application of public money, for the purposes here mentioned. The multiplicity of frauds alone discourages a wise government from proceeding upon this principle, and disappoints the scheme. If severe punishment can in its turn put a stop to frauds, I believe it will be thought very well applied.

While a statesman is thus defending the foreign trade of his country by an extraordinary operation performed upon the circulation of its wealth, he must at the same time employ the second expedient with equal address. He must be attentive to support sobriety at home, and wait patiently until abuses among his neighbours shall produce some of the inconveniences we have already mentioned. So soon as this comes to be the case, he has gained his point; the premiums then may cease; the public money may be turned into another channel; or the tax may be suppressed altogether, according as circumstances may require.

I need not add, that the more management and discretion be used in such operations, the less jealousy will be conceived by other rival nations. And as we are proposing this plan for a state already in possession of a branch of foreign trade, ready to be disputed by others, having superior natural advantages, it is to be presumed that the weight of money, at least is on her side. This, if rightly employed, will prove an advantage, more than equal to any thing which can be brought against it; and if such an operation comes to raise the indignation of her rival, it
will on the other hand, reconcile the favour of every neutral state, who will find a palpable benefit from the competition, and will never fail to give their money to those who sell the cheapest. In a word, no private trader can stand in competition with a nation's wealth. Premiums are an engine in commerce, which nothing can resist but a similar operation.

Hitherto we have been proposing methods for removing the inconveniences which accompany wealth and superiority, and for preserving the advantages which result from foreign trade already established: we must now change sides, and adopt the interest of those nations who labour under the weight of a heavy competition with their rich neighbours, versed in commerce, dextrous in every art and manufacture, and conducted by a statesman of superior abilities, who sets all engines to work, in order to make the most of every favourable circumstance.

It is no easy matter for a state unacquainted with trade and industry, even to form a distant prospect of rivalship with such a nation, as long as the abuses attending upon their wealth are not supposed to have crept in among them. Consequently, it would be the highest imprudence to attempt, at first setting out, any thing that could excite their jealousy.

The first thing to be inquired into is the state of natural advantages. If any branch of natural produce, such as grain, cattle, wines, fruits, timber, or the like, are here found of so great importance to the rival nations, that they will purchase them with money, not with an exchange of their manufactures, such branches of trade may be kept open with them. If none such can be found, the first step is to cut off all communication of trade by exchange with such a people; and to apply closely to the supply of every want at home, without having recourse to foreigners.

So soon as these wants begin to be supplied, and that a surplus is found, other nations must be sought for, who enjoy less advantages and trade may be carried on with them in a lower way. People here must glean before they can expect to reap. But by gleaning every year they will add to their stock of wealth, and the more it is made subservient to public uses, the faster it will increase.

The beginners will have certain advantages inseparable from their infant state; to wit, a series of augmentation of all kinds, of which we have so frequently made mention. If these can be preserved in an equable progression; if the balance of work and demand, and that of population and agriculture, can be kept in a gentle vibration, by alternate augmentations; and if a plan of oeconomy, equally good with that of the rivals, be set on foot and pursued; time will bring every natural advantage of climate, soil, situation, and extent, to work their full effects; and in the end they will decide the superiority.

I shall now conclude my chapter, with some observations on the difference between theory and practice, so far as regards the present subject.

In theory, we have considered every one of the causes which produce high prices, and prevent exportation, as simple and uncompounded: in practice they are seldom ever so. This circumstance makes the remedies difficult, and sometimes dangerous. Difficult, from the complication of the disease; dangerous, because the remedy against consolidated profits which is to increase the number of manufacturers, will do infinite harm, if applied to remove that which proceeds from dear subsistence, which calls for a supply of food, not of mouths, as has been said.

Another great difference between theory and practice occurs
in the fourth case; where we suppose a nation unacquainted with trade, to set out upon a competition with those who are in possession of it. When I examine the situation of some countries of Europe (Spain perhaps) to which the application of these principles may be made, I find that it is precisely in such nations, where the other disadvantages of consolidated profits, and even the high prices of living, are carried to the greatest height; and that the only thing which keeps one shilling of specie among them, is the infinite advantage they draw from their mines, and from the sale of their pure and unmanufactured natural productions, added to their simplicity of life, occasioned by the wretchedness of the lower classes, which alone prevents these also from consuming foreign commodities. Were money in these countries as equally distributed as in those of trade and industry, it would quickly be exported. Every one would extend his consumption of foreign commodities, and the wealth would disappear. But this is not the case; the rich keep their money in their coffers; because lending at interest, there, is very wisely laid under numberless obstructions. The vice, therefore, is not so much that the lending of money at interest is forbid, as that the people are not put in a situation to have any pressing occasion for borrowing it, as a mean of advancing their industry. Were they taught to supply their own wants, the state might encourage circulation by loan; but as they run to strangers for this supply, their money is far better locked up.

Upon a right use and application of these general principles, according to the different combinations of circumstances, in a nation whose principal object is an extensive and profitable foreign trade, I imagine a statesman may both establish and preserve, for a very long time, a great superiority in point of commerce; provided peace can be preserved: for in time of war, every populous nation, if great and extended, will find such difficulties in procuring food, and such numbers of hands gratuitously to maintain, that what formerly made its greatness will hasten its ruin.

Chap. XIX

Of infant, foreign, and inland Trade, with respect to the several Principles which influence them

I have always found it easier to retain the geography of a country, from the inspection of maps, after travelling over the regions there represented, than before; as most prefaces are best understood, after reading the book which they are calculated to introduce. Let this serve as an apology for presenting to my readers a chapter of distribution, in the middle of my subject. I intend at present to take a view of the whole region of trade, divided into its different districts, in order to point out a ruling principle in each, from which every other must naturally flow, or may be deduced by an easy reasoning. These I shall lay before my reader, that from them he may distribute his ideas in the same order I have done. Hence the terms I shall be obliged to use will be rendered more adequate, in expressing the ideas I may have occasion to convey by them. I divide trade into infant, foreign, and inland. First. Infant trade, taken in a general acception, may be understood to be that species, which has for its object the supplying the necessities of the inhabitants of a country; because it is commonly antecedent to the supplying the wants of strangers. This species has been known in all ages, and in all
countries, in a less or a greater degree, in proportion to the multiplication of the wants of mankind, and in proportion to the number of those who depend on their ingenuity for procuring subsistence.

The general principles which direct a statesman in the proper encouragement of this commerce, relate to two objects.

First, To promote the ease and happiness of the higher classes, in making their wealth subservient to their wants and inclinations.

Secondly, To promote the ease and happiness of the lower classes, by turning their natural faculties to an infallible means of relieving their necessities.

This communicates the idea of a free society; because it implies the circulation of a real equivalent for every thing transferred, and for every service performed; to acquire which, mankind submit with pleasure to the hardest labour.

In the first book, I had little occasion to consider trade under different denominations; or as influenced by any other principle than that of promoting the multiplication of mankind, and the extension of agriculture, by drawing the wealth of the rich into the hands of the industrious. This operation, when carried no farther, is a true representation of infant trade.

But now I must set this matter in a new light: and consider this infant trade as a basis for establishing a foreign commerce. In itself it is a mean only of gratifying the desires of those who have the equivalent to give; and of providing it for those who have it not. We are next to examine how a statesman may, by proper care, convert it into the means of procuring to his people a great superiority over all the neighbouring nations; by diminishing, on one hand, the quantity they have of this general equivalent (wealth); and by increasing, on the other, the absolute quantity of it at home; in such a manner as not only to promote the circulation of that part of it which is necessary to supply the wants of all the citizens, but by a surplus of it, to render other nations dependent upon them, in most operations of their political oeconomy.

The statesman who resolves to improve this infant trade into foreign commerce, must examine the wants of other nations, and consider the productions of his own country. He must then determine, what kinds of manufactures are best adapted for supplying the first, and for consuming the latter. He must introduce the use of such manufactures among his subjects; and endeavour to extend his population and his agriculture, by encouragements given to these new branches of consumption. He must provide his people with the best masters; he must supply them with every useful machine; and above all, he must relieve them of their work, when home-demand is not sufficient for the consumption of it.

A considerable time must of necessity be required to bring a people to a dexterity in manufactures. The branches of these are many; and every one requires a particular slight of hand, which cannot be acquired but under the eye of a skilful master, able to point out the rudiments of the art. People do not perceive this inconvenience, in countries where the arts are already introduced; and many a projector has been ruined for want of attention to it.

In the more simple operations of manufacturing, where apprenticeships are not in use, every one teaches another. The new beginners are put among a number who are already perfect: all the instructions they get is, do as you see others do before you. This is an advantage which an established industry has over
another newly set on foot; and this I apprehend to be the reason why we see certain manufactures, after remaining long in a state of infancy, make in a few years a most astonishing progress. What loss must be at first incurred! what numbers of aspiring geniuses overpowered by unsuccessful beginnings, when a statesman does not concern himself in the operation! If he assist his subjects, by laying a prohibition upon foreign work, this expedient will become the means of encouraging the most extravagant profits, unless, at the same time, he extend the manufacture, by multiplying the hands employed in it. I allow, indeed, that as long as the gates of a kingdom are kept shut, and that no foreign communication is permitted, large profits do little harm, and tend to promote dexterity and refinement. This is a very good method for laying a foundation for manufactures: but so soon as dexterity has been thus sufficiently encouraged, and that abundance of excellent masters have been provided; then the statesman, in order to carry the plan into execution, ought to multiply the number of scholars; and a new generation must be brought up in frugality, and in the enjoyment of the most moderate profits.

The ruling principle, therefore, which ought to direct a statesman in promoting and improving the infant trade of his people, is to encourage the manufacturing of every branch of natural productions, by extending the home-consumption of them; by excluding all competition with strangers; by permitting the rise of profits, so far as to promote dexterity and emulation in invention and improvement; by relieving the industrious of their work, as often as demand for it falls short; and, until it can be exported to advantage, it may be exported with loss, at the expense of the public. He must likewise spare no expense in procuring the ablest masters in every branch of industry, nor any cost in making the first establishments, in providing machines, and every other thing necessary or useful to make the undertaking succeed. He must keep constantly an eye upon the profits made in every branch of industry, and so soon as he finds that the real value of the manufacture comes so low as to render it exportable, he must employ the hands, as above, and put an end to these profits he had permitted as the means only of bringing the manufacture to its perfection. In proportion as the prices of every species of industry are brought down to the standard of exportation, in such proportion will this species of trade lose its original character, and adopt the second.

Secondly, Foreign trade has been explained sufficiently: the ruling principles of which are to banish luxury; to encourage frugality; to fix the lowest standard of prices possible; and to watch, with the greatest attention, over the vibrations of the balance between work and demand. While this is preserved, no internal vice can affect the prosperity of it. And when the natural advantages of other nations constitute a rivalry, not otherwise to be overcome, the statesman must counterbalance these advantages by the weight and influence of public money; and when this expedient becomes also ineffectual, foreign trade is at an end; and out of its ashes arises the third species, which I call inland commerce.

Thirdly, The more general principles of in land commerce have been occasionally considered in the first book, and more particularly hinted at in the 15th chapter of this; but there are still many new relations to be examined, from which new principles will arise: these shall be illustrated in the subsequent chapters of this book. I shall here point out the general heads only, which will serve to particularize and
distinguish this third species of trade, from the two preceding. Inland commerce, in the present acceptation of the term, is supposed to take place upon the total extinction of foreign trade. The statesman must, in such a case, as in the other two species, attend to supplying the wants of the rich, in relieving the necessities of the poor, by the circulation of the equivalent as above; but as formerly he had it in his eye to watch over the balance of work and demand, so now he must principally attend to the balance of wealth, as it vibrates between consumers and manufacturers; that is, between the rich and the industrious. The effects of this vibration have been shortly pointed out, Chap. xv.

In conducting a foreign trade, his business was to establish the lowest standard possible as to prices; and to confine profits within the narrowest bounds: but as now there is no question of exportation, this object of his care in a great measure disappears; and high profits made by the industrious will have then no other effect than to draw the balance of wealth more speedily to their side. The higher profits rise, the more quickly will the industrious be enriched, the more quickly will the consumers become poor, and the more necessary will it be to cut off every foreign communication in the way of trade.

From this political situation of any state, arises the fundamental principle of taxation; which is, that, at the time of the vibration of the balance between the consumer and the manufacturer, the state should, by the imposition of a tax, advance the dissipation of the first, and share in the profits of the latter. This branch of our subject I shall not here anticipate; but I shall, in the remaining chapters of this book, make it sufficiently evident, that so soon as the wealth of a state becomes considerable enough to introduce luxury, and put an end to foreign trade; and when, from the excessive rise of prices, all hopes of restoring it are lost, then taxes become necessary, both for the support of government on the one hand, and, on the other, to serve as an expedient for recalling foreign trade in spite of all the pernicious effects of luxury to extinguish it.

I hope from this short recapitulation and exposition of principles, I have sufficiently communicated to my reader the distinctions I want to establish, between what I have called infant, foreign, and inland trade. Such distinctions are very necessary to be retained, because it is proper they should be applied in many places of this treatise, in order to qualify general propositions: these cannot be avoided, without a perpetual repetition of such restrictions, which would tire the reader, appear frivolous to him, and divert his attention.

I shall only add, that we are not to suppose the commerce of any nation confined to any one of the three species. I have considered them separately, according to custom, in order to point out their different principles. It is the business of statesmen to compound them according to circumstances.

Chap. XX

Of Luxury

My reader may perhaps be surprized to find this subject formally introduced, after all I have said of it in the first book, under a definition which renders the term sufficiently clear, by distinguishing it from sensuality and excess; and by confining it to the providing of superfluities, in favour of a
consumption, which necessarily must produce the good effects of giving employment and bread to the industrious.

This simple acceptation of the term, was the most proper for explaining the political effects of extraordinary consumption. I cannot however deny, that the word luxury commonly conveys a more complex idea; and did I take no notice of this circumstance, it might be thought that I had purposely confined the meaning of a general term to a particular acceptation, in order to lead to error, and with a view to conceal the vicious influence of modern economy over the minds of mankind; which influence, if vicious, cannot fail to affect even their political happiness.

My intention therefore, in this chapter, is to relax the mind of my reader, while I set before him my ideas concerning luxury, taken in the most extensive acceptation of the word, in such an order, as first to vindicate the definition I have given of it, by shewing that it is a proper one; and secondly, to reconcile the sentiments of those who appear to combat one another, on a subject wherein all must agree, when terms are fully understood.

For this purpose, I shall set out by distinguishing luxury, as it affects our different interest, by producing hurtful consequences; from luxury, as it regards the moderate gratification of our natural or rational desires. I must separate objects which are but too frequently confounded, and analyze this complicated term, by specifying the ideas it contains, under partial definitions.

The interests affected by luxury, I take to be four: first, the moral, as it hurts the mind; secondly, the physical, as it hurts the body; the domestic, as it hurts the fortune; and the political, as it hurts the state.

The natural desires which proceed from our animal oeconomy, and which are gratified by luxury, may be also reduced to four, viz. hunger, thirst, love, and ease or indolence. The moderate gratification of these desires, and physical happiness, is the same thing. The immoderate gratification of them is excess; and if this also be implied by luxury, no man, I believe, ever seriously became its apologist.

The first point to be explained is, what is to be understood by excess. What appears an excess to one man, may appear moderation to another. I therefore measure the excess by the bad effects it produces on the mind, the body, the fortune, and the state. and when we speak of luxury as a vice, it is requisite to point out the particular bad effects it produces to one, more, or all the interests which may be affected by it: when this is neglected, ambiguities ensue, which involve people in inextricable disputes.

In order to communicate my thoughts upon this subject with the more precision, I shall give an example of the harm resulting to the mind, the body, the fortune, and the state, from the excessive gratification of the several natural desires above mentioned.

First, As to the mind, eating to excess produces the inconvenience of rendering the perceptions dull, and of making a person unfit for study or application.

Drinking confounds the understanding, and often prevents our discovering the most palpable relations of things.

Love fixes our ideas too much upon the same object, makes all our pursuits and pleasures analogous to itself, and consequently renders them trifling and superficial.

Ease, that is, too great a fondness for it, destroys activity, damps our resolution, and misleads the decisions of our judgment on every occasion, where one side of the question
implies an obstacle to the enjoyment of a favourite indolence. These are examples of the moral evils proceeding from luxury in the most general acceptation of the term. While the gratification of these desires is accompanied by no such inconveniences, I think it is a proof, that there has been no moral excess, or that no moral evil has been directly implied in the gratification. But I cannot equally determine that there has been no luxury in the enjoyment of superfluity.

Secondly, The physical inconveniences which follow from all the four, terminate in the hurt they do the body, health or constitution. If no such harm follows upon the gratification of our desires, I find no physical evil: but still luxury, I think, may be implied in every acceptation of the term.

Thirdly, If the domestic inconveniences of the four species be examined, they all centre in one, viz. the dissipation of fortune, upon which depends the future ease of the proprietor, and the well-being of his posterity. When luxury is examined with respect to this object, the idea we conceive of it admits of a new modification. An excess here is compatible with a very moderate gratification of our most natural desires. It is not eating nor drinking, love nor indolence which are hurtful to the fortune, but the expense attending such gratifications. All these are frequently indulged even to excess, in a moral and physical sense, by people who are daily becoming more wealthy by these very means.

Fourthly, Some political inconveniences of luxury have been already pointed out. The extinction of foreign trade is the most striking. But the loss of trade conveys no ideas of any moral, physical, or domestic excess; and still it is vicious so far as it affects the well-being of a state. Besides this particular evil, I very willingly agree, that as far as the good government of a state depends upon the application and capacity, as well as the integrity of those who sit at the helm, or who are employed in the administration or direction of public affairs, so far may the moral inconveniences of luxury mentioned above, affect the prosperity of a state. The consequences of excessive luxury, moral and physical, as well as the dissipation of private fortunes, may render both the statesman, and those whom he employs, negligent in their duty, unfit to discharge it, rapacious and corrupt. These may, indirectly, be reckoned among the political evils attending luxury, so far as they take place. But on the other hand, as they cannot be called the necessary effects of the cause to which they are here ascribed, that is, of moral, physical and domestic luxury, I do not think they can with propriety be implied in the definition of the term. They are rather to be attributed to the imperfection of the human mind, than to any other second cause which may occasionally contribute to their production. They may proceed from avarice, as well as from prodigality.

I hope this short exposition of a matter, not absolutely falling within the limits of my subject, will suffice to prove that my definition of luxury, describes at least the most essential requisite towards determining it; namely, the providing of superfluity with a view to consumption. This is inseparable from our ideas of luxury, but vicious excess certainly is not. A sober man may have a most delicate table, as well as a glutton; and a virtuous man may enjoy the pleasures of love and ease with as much sensuality as a Heliogabalus. But no man can become luxurious, in our acceptation of the word, without giving bread to the industrious, without encouraging emulation, industry, and agriculture; and without producing the circulation of an adequate
equivalent for every service. This last is the palladium of liberty, the fountain of gentle dependence, and the agreeable band of union among free societies.

Let me therefore conclude my chapter, with a metaphysical observation. The use of words, is to express ideas; the more simple any idea is, the more easy it is to convey it by a word. Whenever therefore, language furnishes several words, which are called synonimous, we may conclude, that the idea conveyed by them is not simple. On every such occasion, it is doing a service to language, to render such words as little synonimous as possible, and to point out the particular differences between the ideas they convey.

Let us now apply this remark to the point under consideration. I find the three terms, luxury, sensuality, and excess, generally considered in a synonimous light, notwithstanding the characteristic differences which distinguish them. Luxury consists in providing the objects of sensuality, so far as they are superfluous. Sensuality consists in the actual enjoyment of them, and excess implies an abuse of enjoyment. A person, therefore, according to these definitions, may be very luxurious from vanity, pride, ostentation, or with a political view of encouraging consumption, without having a turn for sensuality, or a tendency to fall into excess. Sensuality, on the other hand, might have been indulged in a Lacedemonian republic, as well as at the court of Artaxerxes. Excess indeed, seems more closely connected with sensuality, than with luxury; but the difference is so great, that I apprehend sensuality must in a great measure be extinguished before excess can begin.

Chap. XXI

Of Physical and Political Necessaries

After having cleared up our ideas concerning luxury, it follows naturally, to examine what is meant by physical-necessary.

I have observed in the third chapter of the first book, that in most countries where food is limited to a determinate quantity, inhabitants are fed in a regular progression down from plenty and ample subsistence, to the last period of want, and dying from hunger. It is ample subsistence where no degree of superfluity is implied, which communicates an idea of the physical-necessary. It is the top of this ladder; it is the first rank among men who enjoy no superfluity whatsoever. A man enjoys the physical-necessary as to food, when he is fully fed; if he is likewise sufficiently clothed, and well defended against every thing which may hurt him, he enjoys his full physical-necessary. The moment he begins to add to this, he may be considered as moving upwards into another class, to wit, that of the luxurious, or consumers of superfluity; of which there are to be found, in most countries, as many stages upward, as there are stages downwards, from where he stood before. This is one general idea of the question. Let me now look for another.

If we examine the state of many animals which have no appetites leading them to excess, we may form a very just idea of a physical-necessary for man. When they are free from labour, and have food at will, they enjoy their full physical-necessary. They are then in the height of beauty, and enjoy the greatest degree of happiness they are capable of. Animals which are forced to labour, prove to us very plainly, that this physical-necessary is not fixed to a point, but that it may vary like most other
things: every one perceives the difference between labouring cattle which are well fed, and those which are indifferently, or ill fed; all however, I suppose to live in health, and to work according to their strength. This represents the nature of a physical-necessary for man.

In all the inferior classes in every nation, we find various degrees of ease among the individuals; and yet upon the whole, it would be hard to determine, which are those who enjoy superfluity; which are those who possess the pure physical-necessary; and which are those who fall below it. The cause of this ambiguity must here be explained.

The nature of man furnishes him with some desires relative to his wants, which do not proceed from his animal oeconomy, but which are entirely similar to them in their effects. These proceed from the affections of his mind, are formed by habit and education, and when once regularly established, create another kind of necessary, which, for the sake of distinction, I shall call political. The similitude between these two species of necessary, is therefore the cause of ambiguity.

This political-necessary has for its object, certain articles of physical superfluity, which distinguishes what we call rank in society.

Rank is determined by birth, education, or habit. A man with difficulty submits to descend from a higher way of living to a lower and when an accidental circumstance has raised him for a while, above the level of that rank where his birth or education had placed him, his ambition prompts him to support himself in his elevation. If his attempt be a rational scheme, he is generally approved of; the common consent of his fellow-citizens prescribes a certain political-necessary for him, proportioned to his ambition; and when at any time this comes to fail, he is considered to be in want.

If on the other hand, a person either from vanity, or from no rational prospect of success, form a scheme of rising above the rank where birth or education had placed him, his fellow-citizens do not consent to prescribe for him a political-necessary suitable to his ambition; and when this fails him, he is considered to fall back only into the class to which he properly belonged. But if the political-necessary suitable to this rank should come to fail, then he is supposed to be deprived of his political-necessary.

The measure of this last species of necessary, is determined by general opinion only, and therefore can never be justly ascertained; and as this opinion may have for its object even those who are below the level of the physical-necessary, it often happens, that we find great difficulties in determining its exact limits.

It may appear absurd, to suppose any one to enjoy superfluity (which we have called the characteristic of political-necessary) to whom any part of the physical-necessary is found wanting. However absurd this may appear, yet nothing is more common among men, and the reason arises from what has been observed above. The desires which proceed from the affections of his mind, are often so strong as to make him comply with them at the expense of becoming incapable of satisfying those which his animal oeconomy necessarily demands.

From this it happens, that however easy it may be to conceive an accurate idea of a physical-necessary for other animals, nothing is more difficult, than to prescribe the proper limits for it with regard to man.

This being the case, let us suppose the condition of those
who enjoy but little superfluity, and who fill the lower classes of the people, to be distinguished into three denominations; to wit, the highest, middle, and lowest degree of physical-necessary, and then let us ask, how we may form an estimation of the respective value of the consumption implied in each, in order to determine the minimum as to the profits upon industry. This question is of great importance; because we have shewn that the prosperity of foreign trade depends on the cheapness of manufacturing; and this again never can fall below the proportion or value of the physical-necessary for manufacturers.

One very good method of estimating the value of the total consumption implied by this necessary quantity, is to compute the expence of those who live in communities, such as in hospitals, workhouses, armies, convents, according to the different degrees of ease, severally enjoyed by those who compose them. In running over the few articles of expence in such establishments, it will be easy to discern between those, which relate to the supply of the physical, and those which relate to the supply of the political-necessary: ammunition bread is an example of the first; a monk's hood and long sleeves, are a species of the latter.

When once the real value of a man's subsistence is found, the statesman may the better judge of the degree of ease, necessary or expedient to allow for the several classes of the laborious and ingenious inhabitants.

As we have divided this physical-necessary into three degrees; the highest, middle, and lowest; the next question is, which of the three degrees is the most expedient to be established, as the standard value of the industry of the very lowest class of a people?

I answer, that in a society, it is requisite that the individual of the most puny constitution for labour and industry, and of the most slender genius for works of ingenuity, having no natural defect, and enjoying health, should be able by a labour proportioned to his force, to gain the lowest degree of the physical-necessary; for in this case, by far the greatest part of the industrious will be found in the second class, and the strong and healthy all in the first.

The difference between the highest class and the lowest, I do not apprehend to be very great. A small quantity added to what is barely sufficient, makes enough: but this small quantity is the most difficult to acquire, and a desire to surmount this difficulty is the most powerful spur to industry. The moment a person begins to live by his industry, let his livelihood be ever so poor, he immediately forms little objects of ambition, compares his situation with that of his fellows who are a degree above him, and considers a shade more of ease, as I may call it, as an advancement, not of his happiness only, but also of his rank.

There are still more varieties to be met with in the condition of those who are confined to the sphere of the physical-necessary. The labour of a strong man ought to be otherwise compensated than that of a puny creature. But in every state there is found labour of different kinds, some requiring more, and some less strength, and all must be paid for; but as a weakly person does not commonly require so much nourishment as the strong and robust, the difference of his gains may be compensated by the smallness of his consumption.

What we mean by the first class of the physical-necessary, is when a person gains wherewithal to be well fed, well clothed, and well defended against the injuries of heat and cold, without any
superfluity. This I say, a strong healthy person should be able to gain by the exercise of the lowest denominations of industrious labour, and without a possibility of being deprived of it, by the competition of others of the same profession.

Could a method be fallen upon to prevent competition among industrious people of the same profession, the moment they come to be reduced within the limits of the physical-necessary, it would prove the best security against decline in a modern state, and the most solid basis of a lasting prosperity.

But as we have observed in the first book, the thing is impossible, while marriage subsists on the present footing. From this one circumstance, the condition of the industrious of the same profession, is rendered totally-different. Some are loaded with a family, others are not. The only expedient, therefore, for a statesman, is to keep the general principles constantly in his eye, to destroy this competition as much as he can, at least in branches for exportation; to avoid, in his administration, every measure which may tend to promote it, by constituting a particular advantage in favour of some individuals of the same class above others; and if the management of public affairs necessarily implies such inconveniences, he must find out a method of indemnifying those who suffer by the competition.

We may therefore, in this place, lay down two principles: First, that no competition should be encouraged among those who labour for a physical-necessary: secondly, that in a state which flourishes by her foreign trade, competition is to be encouraged in every branch of manufactures for exportation, until the competitors have reduced one another within the limits of this necessary.

Farther, I must observe, that this physical-necessary ought to be the highest degree of ease, which any one should be able to acquire with labour and industry, where no peculiar ingenuity is required. This also is a point deserving the attention of a statesman. For how frequently do we find, in great cities, different employments, such as carrying of water, and other burdens, sawing of wood, &c. erected into confraternities, which prevent competition, and raise profits beyond the standard of the physical-necessary? This, I apprehend, to be a discouragement to ingenuity, and have the bad effect of rendering living dear, without answering any one of the intentions of establishing corporations, as shall be shewn in another place. The physical-necessary, therefore, ought to be the reward of labour and industry; whatever any workman gains above this standard, ought to be in consequence of his superior ingenuity.

It is not at all necessary to ascertain the limits between these two classes; they will sufficiently distinguish themselves by the simple operation of competition. Let a particular person fall upon an ingenious invention, he will profit by it, and rise above the lower classes which are confined to the physical-necessary; but if the invention be such as may be easily copied, he will quickly be rivalled to such a degree as to reduce his profits within the bounds of the physical-necessary; so soon as this comes to be the case, his ingenuity disappears, because it ceases to be peculiar to him.

Here arises a question: whence does it happen that certain workmen avoid this competition, and make considerable gains by their employment, while others are rivalled in their endeavours to retain a bare physical-necessary?

There is a combination of several causes to produce these effects, which we shall examine separately; leaving to the reader to judge, how far these causes may extend profits beyond the
physical-necessary.

First, We have said (chap. 9.) that the value of a workman’s labour is determined from the quantity performed, in general, by those of his profession, neither supposing them the best or the worst, or as having any advantage or disadvantage, from the place of their abode. A workman therefore, who, to an extraordinary dexterity, joins the advantages of place, must gain more than another.

Secondly, We have often remarked, that competition between workmen of the same profession, diminishes the profits upon their labour. From this it follows, that in such arts where the least competition is found, there must be the largest profits. Now several circumstances prevent competition. First, An extraordinary dexterity in any art, and especially in those where the whole excellency depends upon great accuracy and a refined taste, such as watch-making, painting of all kinds, making mathematical instruments, and the like; all which set a celebrated artist in a manner above a possibility of rivalship, and make him the master of his price, as experience shews. Secondly, The difficulty of acquiring the dexterity requisite, resulting both from the time and expence of apprenticeships, proves a plain obstacle to a numerous competition. Few there are, who having the stock sufficient to defray the loss of several years fruitless application, have also the turn necessary to lead them to a particular branch of ingenuity. Thirdly, Many there are, who have skill and capacity sufficient to enter into competition, but are obliged to work for others, because of the expensive apparatus of instruments, machines, lodging, and many other things necessary for setting out as a master in the art. These, and similar causes, prevent competition, and support large profits. Fourthly, Masters increase their profits greatly by sharing those of their journeymen: this share, the first have a just title to, from the constant employment they provide for the latter, and the certainty these again have of gaining their physical-necessary, together with a profit proportional to their dexterity, makes them willing to share with their master. The fifth cause of considerable gains, and the last I shall mention, is the most effectual of all, viz. great oeconomy, and parsimonious living. In proportion to the combination of these circumstances, the fortune of the artist will increase, which is the answer to the first part of the question proposed.

We are next to enquire how it happens that many industrious people are rivalled in an industry which brings no more than a bare physical-necessary. This must proceed from some disadvantage either in their personal or political situation. In their personal situation, when they are loaded with a numerous family, interrupted by sickness, or other accidental avocations. In their political situation, when they happen to be under a particular subordination from which others are free, or to be loaded with taxes which others do not pay.

I shall only add, that in computing the value of the physical-necessary of the lowest denomination, a just allowance must be made for all interruptions of labour: no person can be supposed to work every free day; and the labour of the year must defray the expence of the year. This is evident. Farther, neither humanity, or policy, that is the interest of a state, can recommend a rigorous oeconomy upon this essential quantity. If the great abuses upon the price of labour be corrected, those which remain imperceptible to the public eye, will prove no disadvantage to exportation; and as long as this goes on with success, the state is in health and vigour. Exportation of work
is another pulse of the political body.

Chap. XXII

Preliminary Reflections upon inland Commerce

I resume the subject, which, as a rest to the mind, I dropt at the end of the 19th chapter.

I am now to treat directly of inland commerce, which has been sufficiently distinguished from infant, and foreign trade.

We are to consider ourselves now as transported into a new country, where foreign trade had been carried to the greatest height possible; until the luxury of the inhabitants, the carelessness, perhaps, of the statesman, and the natural advantages of other nations, added to the progress of their industry and refinement, had concurred to cut it off, and thereby to dry up the source which had till then been constantly augmenting the national opulence.

We must examine the natural effects of this revolution; we must point out how every inconvenience proceeding from it may be avoided, and how a statesman may regulate his conduct, so as to prevent the exportation of any part of that wealth which the nation may have heaped up within herself, during the prosperity of her foreign trade. How he may keep the whole of his people constantly employed, and by what means he may promote an equable circulation of domestic wealth, through the hands of the lower classes, which will prove an adequate equivalent given by the rich, for the services rendered them by the industrious poor. How, by a judicious imposition of taxes, he may draw together an equitable proportion of every man's annual income, without reducing any one below the standard of a full physical-necessary. How he may, with this public fund, preserve in vigour every branch of industry, and be enabled also, by the means of it, to profit of the smallest revolution in the situation of other nations, so as to reestablish the foreign trade of his own people. And lastly, how the society may be thereby sufficiently defended against foreign enemies, by a body of men regularly supported and maintained at the public charge, without occasioning any sudden revolution hurtful to industry, either when it becomes necessary to increase their numbers, in order to carry on an unavoidable war, or to diminish them, upon the return of peace and tranquility. This is, in few words, the object of a statesman's attention when he finds himself at the head of a people living upon their own wealth without any mercantile connections with strangers.

How hurtful soever the natural and immediate effects of political revolutions may have been formerly, when the mechanism of government was more simple than at present, they are now brought under such restrictions, by the complicated system of modern oeconomy, that the evil which might otherwise result from them may be guarded against with ease.

As often, therefore, as we find a notable prejudice resulting to a state, from a change of their circumstances, gradually taking place, we may safely conclude, that negligence, or want of abilities, in those who have the direction of public affairs, has more than any other cause been the occasion of it.

It was observed, in the third chapter of the first book, that before the introduction of modern oeconomy, which is made to subsist by the means of taxes, a state was seldom found to be interested in watching over the actions of the people. They bought and sold, transferred, transported, modified, and
compounded productions and manufactures, for public use, and private consumption, just as they thought fit. Now it is precisely in these operations that a modern state is chiefly interested; because proportional taxes are made to affect a people on every such occasion.

The interest the state has in levying these impositions, gives a statesman an opportunity of laying such operations under certain restrictions; by the means of which, upon every change of circumstances, he can produce the effect he thinks fit. Do the people buy from foreigners what they can find at home? he imposes a duty upon importation. Do they sell what they ought to manufacture? he shuts the gates of the country. Do they transfer or transport at home? he accelerates or retards the operation, as best suits the common interest. Do they modify or compound what the public good requires to be consumed in its simple state? he can either prevent it by a positive prohibition, or he may permit such consumption to the more wealthy only, by subjecting it to a duty.

So powerful an influence over the operations of a whole people, vests an authority in a modern statesman, which in former ages, even under the most absolute governments, was utterly unknown. The truth of this remark will appear upon reflecting on the force of some states, at present in Europe, where the sovereign power is extremely limited, in every arbitrary exercise of it, and where, at the same time, it is found to operate over the wealth of the inhabitants, in a manner far more efficacious than the most despotic and arbitrary authority possibly can do.

It is the order and regularity in the administration of the complicated modern oeconomy, which alone can put a statesman in a capacity to exert the whole force of his people. The more he has their actions under his influence, the easier it is for him to make them concur in advancing the general good.

Here it is objected, that any free people who invest a statesman with a power to control their most trivial actions, must be out of their wits, and considered as submitting to a voluntary slavery of the worst nature, as it must be the most difficult to be shaken off. This I agree to; supposing the power vested to be of an arbitrary nature, such as we have described in the thirteenth chapter of this book. But while the legislative power is exerted in acquiring an influence only over the actions of individuals, in order to promote a scheme of political oeconomy, uniform and consistent in all its parts, the consequence will be so far from introducing slavery among the people, that the execution of the plan will prove absolutely inconsistent with every arbitrary or irregular measure.

The power of a modern prince, let it be by the constitution of his kingdom, ever so absolute, immediately becomes limited so soon as he establishes the plan of oeconomy which we are endeavouring to explain. If his authority formerly resembled the solidity and force of the wedge (which may indifferently be made use of, for splitting of timber, stones and other hard bodies, and which may be thrown aside and taken up again at pleasure), it will at length come to resemble the delicacy of the watch, which is good for no other purpose than to mark the progression of time, and which is immediately destroyed, if put to any other use, or touched with any but the gentlest hand.

As modern oeconomy, therefore, is the most effectual bridle ever was invented against the folly of despotism; so the wisdom of so great a power never shines with greater lustre, than when we see it exerted in planning and establishing this oeconomy, as a bridle against the wanton exercise of itself in succeeding
generations. I leave it to my reader to seek for examples in the
conduct of our modern Princes, which may confirm what, I think,
reason seems to point out: were they less striking, I might be
tempted to mention them.

The part of our subject we are now to treat of, will present
us with a system of political oeconomy, still more complicated
than any thing we have hitherto met with.

While foreign trade flourishes and is extended, the wealth of
a nation increases daily; but force is not so easily exerted, as
after this wealth begins to circulate more at home, as we shall
easily shew. But, on the other hand, the force she exerts is much
more easily recruited. In the first case, her frugality enables
her to draw new supplies out of the coffers of her neighbours; in
the last, her luxury affords a resource from the wealth of her
own citizens.

In opening my chapter, I have introduced my reader into a new
country; or indeed I may say, that I have brought him back into
that which we had under our consideration in the first book.

Here luxury and superfluous consumption will strike his view
almost at every step. He will naturally compare the system of
frugality, which we have dismissed, with that of dissipation,
that the introduction of the latter, must prove a certain
forerunner of destruction. The examples found in history of the
greatest monarchies being broken to pieces, so soon as the taste
for simplicity was lost, seem to justify this conjecture. It is,
therefore, necessary to examine circumstances a little, that we
may compare, in this particular also, the oeconomy of the
anceints with our own; in order to discover whether the
introduction of luxury be as hurtful at present, as it formerly
proved to those states which made so great a figure in the world;
and which are known from history only, and judged of from the few
scattered ruins, which remain to bear testimony of their former
greatness.

Luxury is the child of wealth; and wealth is acquired by
states, as by private people, either by a lucrative, or by an
onerous title, as the civilians speak. The lucrative title, by
which a state acquires, is either by rapine, or from her mines;
the onerous title, or that for a valuable consideration, is by
industry.

The wealth of the ancient monarchs of Babylon, Persia,
Greece, and Rome, was the effect of rapine; whereas industry
enriched the cities of Sydon, Tyre, Carthage, Athens, and
Alexandria. The luxury of the first, proved the ruin of the
luxurious; the luxury of the last, advanced their grandeur:
because they had no rivals to take advantage of the natural
effects of this luxury, in cutting off the profits of their
foreign trade. Peace was as hurtful to the plunderers, as war was
destructive to the industrious.

When an empire was at war, its wealth was thereby made to
circulate for an equivalent in services performed. So soon as
peace was restored, every one returned, as it were, to a state of
slavery. The monarch then possessed himself of all the wealth,
and distributed it by caprice. Fortunes were made in an instant,
and no body knew how: they were lost again by transitions equally
violent and sudden. The luxury of those days was attended with
the most excessive oppression. Extraordinary consumption was no
proof of the circulation of any adequate equivalent in favour of
the industrious: it had not the effect of giving bread to the
poor, nor of proportionally diminishing the wealth of the rich.
The great remained constantly great; and the more they were
Prodigal, the more the small were brought into distress. In one word, luxury had nothing to recommend it, but that quality which solely constitutes the abuse of it in modern times; to wit, the excessive gratification of the passions of the great, which frequently brought on the corruption of their manners.

When such a state became luxurious, public affairs were neglected because it was not from a right administration that wealth was to be procured. War, under such circumstances, worked effects almost similar to the springing up of industry in modern times; it procured employment, and this produced a more regular circulation, as has been said.

On the other hand, the wealth and luxury of the trading cities above mentioned, which was of the same species with that of modern times, proceeded from the alienation of their work; that is, from their industry. Nothing was got for nothing, and when they were forced to go to war, they found themselves obliged either to dissipate their wealth, by hiring troops, or to abandon the resources of it, the labour of their industrious citizens. Thus the Punic wars exalted the grandeur of plundering Rome, and blotted out the existence of industrious Carthage. I do not here pretend to vindicate the justness of these reflections in every circumstance, and it is foreign to my present purpose to be more particular; all I seek for, is to point out the different effects of luxury in ancient and modern times.

Ancient luxury was quite arbitrary; consequently could be laid under no limitations, but produced the worst effects, which naturally and mechanically could proceed from it.

Modern luxury is systematical; it cannot make one step, but at the expense of an adequate equivalent, acquired by those who stand the most in need of the protection and assistance of their fellow citizens; and without producing a vibration in the balance of their wealth. This balance is in the hands of the statesman, who may receive a contribution upon every such vibration. He has the reins in his hand, and may turn, restrain, and direct the luxury of his people, towards whatever object he thinks fit.

Luxury here is so far from drawing on a neglect of public affairs, that it requires the closest application to the administration of them, in order to support it. When these are neglected, the industrious will be brought to starve, consumption and taxes will diminish; that is, luxury will insensibly disappear, and hoarding will succeed it. These and similar consequences will undoubtedly take place, and mechanically follow one another, when a skilful hand is not applied to prevent them.

It is impossible not to perceive the advantages of supporting a flourishing inland trade, after the extinction of foreign commerce. By such means elegance of taste, and the polite arts, may be carried to the highest pitch. The whole of the inhabitants may be employed in working and consuming; all may be made to live in plenty and in ease, by the means of a swift circulation, which will produce a reasonable equality of wealth among all the inhabitants. Luxury can never be the cause of inequality, though it may be the effect of it. Hoarding and parsimony form great fortunes, luxury dissipates them and restores equality.

Such a situation would surely be of all others the most agreeable, and the most advantageous, were all mankind collected into one society, or were the country where it is established cut off from every communication with other nations.

The balance between work and demand would then only influence the balance of wealth among individuals, and the subversions of it would do little harm. If hands became scarce, the balance would turn the quicker in favour of the laborious, and the idle
would grow poor. If hands became too plentiful (which indeed is hardly to be expected) every thing would be bought the cheaper; but the same quantity of national wealth would still remain without any diminution.

Where is, therefore, the great advantage of foreign trade?

I answer by putting another question. Where is the great advantage of a person’s making a large fortune in his own country? A man of a small estate may, no doubt, be as happy as another with a great one; and the same thing would be true of nations, were all equally inspired with a spirit of peace and justice; or were they subordinate to a higher temporal power, which could protect the weak against the violence and injustice of the strong.

It is, therefore, the separate interests of nations who incline to communicate together, and consume part of one another’s commodities, which renders the consideration of the principles of trade, a matter of great importance.

While nations contented themselves with their own productions, while the difference of their customs, and contrast of their prejudices were great, the connections between them were not very intimate.

From this proceeds the great diversity of languages and dialects. When a traveler finds a sudden transition from one language to another, or from one dialect to another, it is a proof that the manners of such people have been long different, and that they have had little communication with one another. On the contrary, when dialects change by degrees, as in the provinces of the same country, it is a proof that there has been no great repugnancy in their customs. In like manner, when we find several languages, at present different, but plainly deriving from the same source, we may conclude, that there was a time when such nations were connected by correspondence, or that the language has been transplanted from one to the other, by the migration of colonies. But I insensibly wander from my subject.

I have said, that when nations contented themselves with their own productions, connections between them were not very intimate. While trade was carried on by the exchange of consumable commodities, this operation also little interested the state; consumption then was equal on both sides; and no balance was found upon either. But so soon as the precious metals became an object of commerce, and when, by being rendered an universal equivalent for everything; they become also the measure of power between nations, then the acquisition, or at least the preservation of a proportional quantity of them, became to the more prudent, an object of the last importance.

We have seen how a foreign trade, well conducted, has the necessary effect of drawing wealth from all other nations. We have seen in what manner the benefit resulting from this trade may come to a stop, and how the balance of it may come round to the other side. We are now to examine how the same prudence which set foreign trade on foot, and supported it as long as possible, may put an effectual stop to it, and at the same time guard against a sudden revolution; to the end that a nation enriched by commerce may not, by blindly or mechanically carrying it on, when the balance is against her, fall into those inconveniences which other nations must have experienced during her prosperity.

Chap. XXIII

When a Nation, which has enriched herself by a reciprocal Commerce in Manufactures with other Nations, finds the Balance of
Trade turn against her, it is her Interest to put a Stop to it altogether.

Trade having subsisted long in the nation we are now to keep in our eye, I shall suppose that, through length of time, her neighbours have learned to supply one article of their own and other people's wants cheaper than she can do. What is to be done? Nobody will buy from her, when they can be supplied from another quarter at a less price. I say, what is to be done? For if there be no check put upon trade, and if the statesman do not interpose with the greatest care, it is certain, that merchants will import the produce, and even the manufactures of rival nations; the inhabitants will buy them preferably to their own; the wealth of the nation will be exported; and her industrious manufacturers will be brought to starve. We may therefore look upon this, as a problem in trade, to be resolved by the principles already established.

First, then, it must be inquired, if, in the branch in which she is undersold, her rivals enjoy a natural advantage above her, which no superior industry, frugality, or address on her side, can counterbalance? If this be the case, there are three different courses to be pursued, according to circumstances.

First, To renounce this branch of commerce entirely, and to take the commodities wanted from foreigners, as they can furnish them cheaper.

Secondly, To prohibit the importation of such commodities altogether.

Thirdly, To impose a duty upon importation, in order to raise the price of them so high as to make them dearer than the same kind of commodity produced at home.

The first course may be taken, if, upon examining how the hands employed in a manufacture may be disposed of, it be found, that they may easily be thrown into another branch of industry, in which the nation's natural advantages are as superior to her rivals, as their's are superior to her's in the branch she intends to abandon; and provided her neighbours will agree to open their ports to the free importation of the commodities in question. For though there may be little profit in a trade by exchange, I still think it advisable to continue correspondence, and to avoid every occasion of cutting off commerce with other nations. A laborious, oeconomical, and sagacious nation, such as I suppose our traders to be, will be able to profit of many circumstances, which would infallibly turn to the disadvantage of others less expert in commerce, with whom she trades; and in expectation of favourable revolutions, she ought not rashly, nor because of small inconveniences, to renounce trading with them; especially if luxury should appear there to be on the growing hand.

But suppose the rival nation will not consent to receive the manufactures, which the traders may produce with great natural advantages, what course is then the best to be taken?

I think she ought to encourage, for her own consumption, the branch in which she is rivalled, though she must give over exporting it; and, in this case, it must be examined, whether the importation of it should be prohibited altogether, (which is the second course mentioned above) or whether it be more advisable to prefer the last scheme, viz. to allow such commodities to be imported, with a duty which may raise their price to so just a height as neither to suffer them to be sold so cheap as to discourage the domestic fabrication, nor so dear, as to raise the profits of manufactures above a reasonable standard, in case of
an augmentation of demand.

The second course must be taken, when the natural advantages of the foreign nations are so great, as to oblige the statesman to raise duties to such a height as to give encouragement to smuggling.

The third course seems the best, when the advantages of the rivals are more inconsiderable; in which case, the traders may, in time, and by the progress of luxury among their neighbours, or from other revolutions, which frequently happen in trading nations, regain their former advantages.

This may be the decision, in case a nation be rivalled in a branch where she has not equal advantages with her neighbours; and when she cannot compensate this inconvenience, either by her frugality or industry, or by the means of a proper application of her national wealth. These operations have been already fully explained, and are now considered as laid aside; not that we suppose they can ever cease to operate their effects in all nations; but in order to simplify our ideas, and to point out the principles which ought to direct a statesman’s conduct upon occasions, where from different combinations of circumstances, he finds better expediends impracticable.

Let me next suppose a nation to be rivalled in her staple manufactures; that is, in those where she has the greatest natural advantages.

Whenever such a case happens, it must proceed from some vice within the state. Either from the progress of luxury in the workmen, which must proceed from consolidated profits, or from accidental disadvantages; such as dearness of subsistence, or from taxes injudiciously imposed. These (I mean all, except the taxes, of which afterwards) must be removed upon the principles above laid down: and if this cannot be compassed, no matter why; then comes the fatal period, when all foreign reciprocal commerce in manufactures must be given up. For if no profit can be made upon branches where a nation has the greatest natural advantages, it is more than probable, that every other branch will prove at least equally disadvantageous. If upon this revolution the ports of the nation be not shut against the importation of foreign manufactures, merchants will introduce them, and this will drain off the nation's wealth, and bring the industrious to starve.

It is upon this principle that incorporations are established. Of these we shall say a word, and conclude our chapter.

Cities and corporations, may be considered as nations, where luxury and taxes have rendered living so expensive, that goods cannot be furnished but at a high rate. If labour, therefore, of all kinds, were permitted to be brought from the provinces, or from the country, to supply the demand of the capital and smaller corporations, what would become of tradesmen and manufacturers who have their residence there? If these, on the other hand, were to remove beyond the liberties of such corporations, what would become of the public revenue, collected in these little states, as I may call them?

By the establishment of corporations, a statesman is enabled to raise high impositions upon all sorts of consumption; and notwithstanding these have the necessary consequence of increasing the price of labour, yet by other regulations, (of which afterwards,) the bad consequences thereby resulting to foreign trade may be avoided, and every article of exportation be prevented from rising above the proper standard for making it vendible, in spite of all foreign competition.

The plan of modern taxation seems first to have been
introduced into cities, while the country was subject to the barons, and remained in a manner quite free from it. Cities having obtained the privilege of incorporation, began, in consequence of the powers vested in their magistrates, to levy taxes: and finding the inconveniences resulting from external competition (foreign trade), they erected the different classes of their industrious into confraternities, or corporations of a lower denomination, with power to prevent the importation of work from their fellow tradesmen not of the society.

Here arises a question.

Why are corporations complained of in many countries, as being a check upon industry; if the establishment of them proceed from so plain a principle as this here laid down?

Let me draw my answer from another question. Why are they not complained of in all countries?

The difference between the situation of one country and another, will plainly point out the principle which ought to regulate the establishment and government of corporations. When this is well understood, all disputes concerning the general utility, or harm arising from them will be at an end: and the question will be brought to the proper issue; to wit, their relative utility considered with respect to the actual situation of the country where they are established. In one province a corporation will be found to be useful, in another just the contrary.

First then it must be agreed, on all hands, that the principle laid down is just. Nobody ever advanced, that the industry carried on in towns, where living is dear, ought to suffer a competition with that of the country, where living is cheap; I mean for the direct consumption of the citizens. But it may be alleged, that no subaltern corporation should enjoy an exclusive privilege against those who share of every burthen imposed by the great corporation from which they draw their existence: and that they have no right of exclusion against citizens; but against strangers only, who are not under the same jurisdiction, nor liable to the same burthens. Here the dispute lies between the members of the great corporation and those of the smaller. Now, I say, while no other interest is concerned, the decision of this question ought to be left to the corporation itself. But the moment the public good comes to be affected by certain privileges enjoyed by individuals, such privileges should either be abolished, or put under limitations.

In countries where industry stands at a determinate height, while the consumption of cities neither augments or diminishes; while those who live upon an income acquired, live uniformly in the same way; while this regular consumption is regularly supplied, by a certain number of citizens sufficient to supply it; while the hands employed for this purpose are in a perfect proportion to the demand made upon them; in such countries, I say, any diminution of the privileges of corporations, would be a mean of overturning the equal balance between work and demand.

We have said above, that when hands become too many for the work, profits fall below the necessary standard of subsistence; that the industrious enter into competition for the physical-necessary, and hurt one another. Here then is the principle which the corporation ought to keep in its eye: the profits under every trade ought to be in proportion to the demand for it.

In order the better to support this proportion, many towns in Germany have the subaltern corporations of trades restrained to certain numbers. There is a determinate number of apothecaries,
joiners, smiths, &c. allowed in every town, and no more; according as employment is found for them. This seems a good regulation. I do not say but it may be abused. But the power of administration must be lodged somewhere; and if in a country where industry is making little progress, corporations were laid open, the consequence would be, that every workman would starve another, and the consumers would be ill served.

On the other hand, when industry springs up, when the manners of a people change all of a sudden, or by quick degrees, as has been the case in many countries in Europe within these threescore years: it is a mark of a narrow capacity not to perceive that a change of administration becomes necessary; and if on such revolutions those who are at the head of corporations should wish to profit of the increase of demand, in order to raise prices in favour of the incorporated workmen, the infallible consequence would be, to make the city become deserted, and deprived of a trade, which otherwise would necessarily fall to her share, in consequence of the advantage she must draw from establishments already made for supplying every branch of consumption. But let the principle above mentioned be constantly followed; let profits be kept at a right standard; let hands be increased according to demand; let the city workmen gain no advantage over those of the country which may not be compensated by the difference of the price of living; let the disadvantages again on the side of the town affect their own consumption only, not the surplus of their industry; let every convenience for carrying on foreign trade (every thing here is understood to be foreign, which does not enter into the consumption of the town) be provided for in the suburbs, or, if you please, in a place out of the town walled in for this purpose; let markets there be held for every kind of work coming from the country; and then the true intent of a corporation will be answered. If it be found that the prosperity of trade demands still more liberty, then the corporation may be thrown open; but on the other hand, every burthen must be taken off, and every incorporated member must be indemnified by the state, for the loss he is thereby made to suffer.

The great change daily operating on the spirit of European nations, where corporations have been long established, without any great inconvenience having been found to arise from them, suggest these reflections, which seem naturally to flow from the principles to which we refer. I shall only add, that from the practice of imposing taxes within these little republics (as I have called them) Princes seem to have taken the hint of extending this system; by first appropriating to the public revenue, what the cities had established in favour of themselves, and then by enlarging the plan as circumstances favoured their design. That this is the true origin of the modern plan of taxation (I mean that upon consumption) may be gathered from hence; that the right of imposing taxes appears no where, almost, to have been essentially attached to royalty, even in those kingdoms, where Princes have long enjoyed an unlimited constitutional authority over the persons of their subjects. An authority, which I take to be the least equivocal characteristic of an absolute and unlimited power. I know of no christian monarchy (except, perhaps, Russia) where either the consent of states, or the approbation or concurrence of some political body within the state, has not been requisite to make the imposition of taxes constitutional; and if more exceptions be found, I believe it will not be difficult to trace the origin of such an exertion of sovereign authority, without ascending to a very high
antiquity. The prerogative of Princes in former times, was measured by the power they could constitutionally exercise over the persons of their subjects; that of modern princes, by the power they have over their purse.

Having, therefore, shewn the necessity of putting a stop to foreign reciprocal commerce in manufactures, so soon as in every branch this trade becomes disadvantageous to a nation; the next question is how to proceed in the execution of so great an undertaking, so as to avoid a sudden and violent revolution in the oeconomy of the state, which is of all things the most dangerous: the hurt, therefore, ought to be foreseen at a great distance, in order to be methodically prevented.

Chap. XXIV

What is the proper Method to put a Stop to a foreign Trade in Manufactures, when the Balance of it turns against a Nations?

It must not be understood, from what was said in the last chapter, that so soon as the balance of foreign trade, either on the whole, or on any branch of manufacture, is found to be against a nation, that a statesman should then at once put a total stop to it. This is too violent a remedy ever to be applied with success.

It is hardly possible, that a considerable revolution in the trade of a nation should happen suddenly, either to its advantage, or disadvantage, unless in times of civil discord, or foreign wars, which at present do not enter into the question.

A sagacious statesman will, at all times, keep a watchful eye upon every branch of foreign commerce, especially upon importations. These consist either in the natural produce of other countries, or in such produce increased in its value by manufacture.

In all trade, two things are to be considered in the commodity sold. The first is the matter; the second is the labour employed to render this matter useful.

The matter exported from a country, is what the country loses; the price of the labour exported, is what it gains.

If the value of the matter imported be greater than the value of what is exported, the country gains. If a greater value of labour be imported, than exported, the country loses. Why? Because in the first case, strangers must have paid, in matter, the surplus of labour exported; and in the second case, because the country must have paid to strangers, in matter, the surplus of labour imported.

It is therefore a general maxim, to discourage the importation of work, and to encourage the exportation of it.

When any manufacture begins to be imported, which was usually made at home, it is a mark that either the price of it begins to rise within the country, or that strangers are making a new progress in it. On the other hand, when the importation of manufactures consumed within a country comes to diminish, and when merchants begin to lose upon such branches of trade, it is a proof that industry at home is gaining ground in those articles. The statesman then must take the hint, and set out by gently clogging the importation of those commodities, not so as to put a stop to it all at once; because this might have the effect of carrying profits too high upon the home-fabrication of them.

All sudden revolutions are to be avoided. A sudden stop upon a large importation, raises the prices of domestic industry by jerks, as it were; they do not rise gradually; and these
extraordinary profits engage too many people to endeavour to share in them. This occasions a desertion from other branches of industry equally profitable to the state. Such revolutions do great harm; because it is a long time before people come to be informed of their true cause, and during the uncertainty, they are in a wilderness, as it were, surprised and delighted with the consequences of them, according as their several interests are affected by them. Every one accounts for the phenomena in a different way. Some are for applying remedies against the inconveniences; while others are totally taken up in profiting to the utmost of every momentary advantage. In a word, nothing is more hurtful than a sudden revolution in so complicated an interest as that of the whole class of the industrious, in a modern society. When therefore such changes happen, in spite of all a statesman can do, the best way to prevent the inconveniences which they draw along with them, is to inform the public of the true causes of every change, favourable or hurtful to the several classes of inhabitants. This also seems to be the best method to engage every one to concur in rendering the proper remedies effectual, when the inconveniences themselves cannot be prevented. So much for a scheme for encouraging growing manufactures, or for supporting them in their decline. I proceed next to consider the methods for preventing the loss of others already established.

We have said, that the importation of any article of consumption usually provided at home, was a proof by no means equivocal of a foreign rivalry. I shall say nothing at present, of the methods to be used as a remedy for this inconvenience: these have been already discussed. We must now suppose, every one that might be contrived for this purpose, to have become ineffectual; and foreign industry to be so far gaining ground, as daily, more and more, to supply the several branches of domestic consumption.

Upon this, the statesman will begin by laying the importation of such commodities under certain restrictions. If these do not prove sufficient, they will be increased: and if the augmentation produces frauds, difficult to be prevented, the articles will be prohibited altogether. By this method of proceeding, it will be found, that without any violent or sudden prohibition laid all at once upon foreign trade, by little and little, every pernicious branch of it will be cut off, till at last it will cease altogether, as in the case mentioned above; to wit, when the most advantageous branches of it cannot be carried on without loss.

Something, however, must here be added, in order to restrain so general a plan of administration. Nothing is more complex than the interests of trade, considered with respect to a whole nation. It is hardly possible for a people to have every branch of trade favourable for the increase of her wealth: consequently, a statesman who, upon the single inspection of one branch, would lay the importation of it under limitations, in proportion as he found the balance upon it unfavourable to the nation, might very possibly undo a flourishing commerce.

He must first examine minutely every use to which the merchandize imported is put: if a part is re-exported with profit, this profit must be deducted from the balance of loss incurred by the consumption of the remainder. If it be consumed upon the account of other branches of industry, which are thereby advanced, the balance of loss may still be more than compensated. If it be a mean of supporting a correspondence with a neighbouring nation, otherwise advantageous, the loss resulting from it may be submitted to, in a certain degree. But if upon
examining the whole chain of consequences, he find the nation’s wealth not at all increased, nor her trade encouraged, in proportion to the damage at first incurred by the importation; I believe he may decide such a branch of trade to be hurtful; and therefore that it ought to be cut off, in the most prudent manner, according to the general rule.

The first object of the care of a statesman, who governs a nation, which is upon the point of losing her foreign trade, without any prospect or probability of recovering it, is to preserve the wealth she has already acquired. No motive ought to engage him to sacrifice this wealth, the safety alone of the whole society excepted, when suddenly threatened by foreign enemies. The gratification of particular people’s habitual desires, although the wealth they possess may enable them, without the smallest hurt to their private fortunes, to consume the productions of other nations; the motive of preventing hoards; that of promoting a brisk circulation within the country; the advantages to be by caring on a trade made by merchants, who may enrich themselves disadvantageous to the nation; to say all in one word, even the supporting of the same number of inhabitants, ought not to engage his consent to the diminution of national wealth.

Here follow my reasons for carrying this proposition so very far as to recommend the incurring of the loss of a part of the inhabitants to that of any considerable part of the wealth acquired; and I flatter myself, that when duly examined, I may avoid the smallest imputation of Machiavellian principles, in consequence of so bold an assertion.

While a people are fed with the produce of their own lands, the preservation of their numbers is quite consistent with the preservation of their wealth. If, therefore, in such a case, their numbers should be diminished upon a decay of foreign trade, either by the exportation of their food, or by their lands becoming uncultivated, I should never hesitate to lay the blame upon the statesman’s administration.

But an industrious people may (as has been said) carry their numbers far beyond the proportion of their own growth. The deficiency must then be supplied from abroad, and must be paid for with the balance of the trade in their favour. Now when this balance comes to turn against them, and when, consequently, a stop is put to the disadvantageous foreign trade, upon the principles we have been laying down, the statesman is reduced to this alternative; either annually to allow a part of the wealth already got, to be exported, in order to buy subsistence for the surplus of his people, as I may call them; or to reduce their numbers by degrees (either by encouragements given to their leaving the country, or by establishing colonies, &c.) until they be brought down to the just proportion of the growth of national subsistence. If he prefers the first, supposing the execution of such a plan to be possible, the consequence will be, that so soon as all the wealth is spent, the whole society, except the proprietors of the lands, and those who cultivate them, must go to destruction. If he prefers the second, he will remain independent of all the world with respect to the inhabitants he will preserve. They will remain in a capacity of maintaining themselves, and he may alter the plan of his political oeconomy as best may suit his circumstances, relatively to other nations. While all his subjects are employed and provided for, he will remain at the head of a flourishing and a happy people.

It may be here objected, that the first alternative is an impossible supposition. I allow it to be so, if you suppose it to
be carried the length to which I have traced it; because no power whatsoever in a statesman can go so far as to preserve numbers at the expense of the whole riches of his people. But I can very easily suppose a case, where numbers may be supported at an eminent loss to a state which finds itself in the situation in which we have represented it in our supposition.

Suppose a prince, upon the failure of his foreign trade, to increase his army, in proportion as he finds his industrious hands become idle by a deficiency of demand for their labour; suppose him to fill his magazines for their subsistence by foreign importation, leaving the produce of his country to feed the rest of his subjects. By such a plan, every body will remain employed, and also provided for, and such a prince may be looked upon as a most humane governor. This I willingly agree to. I should love such a prince; but the more I loved him, the more I should regret that his project must fail, from a physical impossibility of its being long supported; and when it comes to fail by the exhausting of his wealth, it will not be his regrets which will give bread to his soldiers, nor employment to his industrious subjects, who will no longer find an equivalent for their labour.

Let this suffice at present, upon the general principles which influence the stop necessary to be put to the importation of foreign commodities, and to the diminution of national wealth, in the case we have had before us.

Next, as to the articles of exportation. The most profitable branches of exportation are those of work, the less profitable those of pure natural produce. When work cannot be exported in all its perfection, because of its high price, it is better to export it with a moderate degree of perfection, than not at all; and if even this cannot be done to advantage, then will a people be obliged to renounce manufacturing except for themselves: and then, if domestic consumption do not increase in proportion to the deficiency of foreign demand, a certain number of hands will be idle, and a certain quantity of natural produce will remain upon hand. The first must disappear in a short time; they will starve or desert; the last will become an article of exportation. Here then is a new species of trade which takes place upon the extinction of the other. When a nation has been forced to reduce her exportations to articles of pure natural produce, in conformity to the principles we have been laying down, then the plan proposed in the title of this chapter is executed. She is then brought as low in point of trade as she can be, but, at the same time, she may enjoy her natural advantages in spite of fortune; and in proportion to them, she may, with a good government and frugality, retain a balance of trade in her favour, which will constantly go on in augmenting her national wealth.

There is, therefore, a period at which foreign trade may stop in every article, but in natural produce. I do not know whether this period be at a great distance, when the state of trade is considered relatively to certain nations of Europe.

Were industry and frugality found to prevail equally in every part of these great political bodies, or were luxury and superfluous consumption every where carried to the same height, trade might, without any hurt, be thrown entirely open. It would then cease to be an object of a statesman's care and concern. On the other hand, were all nations equally careful to check every branch of unprofitable commerce, a general stagnation of trade would soon be brought about. Manufactures would no more be the object of traffic; every nation would supply itself, and nothing
would be either exported or imported, but natural productions.

But as industry and idleness, luxury and frugality, are constantly changing their balance throughout the nations of Europe, able merchants make it their business to inform themselves of these fluctuations, and able statesmen profit of the discovery for the re-establishment of their own commerce; and when they find that this can no more be carried on with the manufactures or produce of their own country, they engage their merchants to become carriers for their neighbours, and by these means, form as it were a third and last entrenchment, which, while they can defend it, will not suffer their foreign trade to be quite extinguished; because, by this last expedient, it may continue for some time to increase their national stock. It is in order to cut off even this resource, that some nations lay not only importations under restraint, but also the importers. Let such precautions be carried to a certain length on all hands, and we shall see an end to the whole system of foreign trade, so much à-la-mode, that it appears to become more and more the object of the attention as well as of the imitation of all modern statesmen.

Chap. XXV

When a rich Nation finds her Foreign Trade reduced to the Articles of Natural Produce, what is the best Plan to be followed? and what are the Consequences of such a Change of Circumstances?

There is now no more question of a trading nation; this character is lost, the moment there is a stop put to the export of the labour and ingenuity of her people.

The first objects of her care should now be to increase, by every possible means, the quantity of her natural produce; to be as frugal as possible in the consumption of it, and to export the surplus to the best advantage.

If she find the exportation of subsistence going forward, while some of her people remain in want, she may rest assured that industry is suffering from some internal vice; and the most probable cause of such an effect may be an unequal competition between those of the lower classes, who work for a physical necessary. This must be removed, and the statesman should never rest until he has set the balance of work and demand so far right, as to prevent the scale of work at least from preponderating; for this is the door by which misery gets in among a people.

The preponderation of the scale of demand will not now be so hurtful; because this alteration of the balance will only raise prices, accelerate circulation, and keep the other balance, to wit, that of wealth (of which we shall treat in the following chapter), in a constant vibration, without diminution of the public stock.

Another object of a statesman's care in these supposed circumstances, is to prohibit the importation of all work, and even the natural produce of any other country conducive to luxury; for although I have said, that superfluous consumption can do little harm when the interests of foreign trade do not enter into the question so as to prevent exportation, by raising prices at home; and though the importation of foreign produce, in exchange for like commodities of national growth, do no hurt to a state with respect to her wealth; yet if such importation be an
article of mere superfluity, I think a statesman should prudently itself a proof of discourage it; because the search after superfluities is of a luxurious turn, and I should wish to see this turn improved so as to promote national purposes only, that is, the augmentation and subsistence of useful inhabitants.

Let me illustrate this by an example. Foreign wines, I shall suppose, become à-la-mode, as a part of the luxury of an elegant table. A statesman by his example, may discourage this, by introducing many other articles of expense in entertainments sufficient to compensate it. The furniture of apartments may be rendered more magnificent, ornaments of the side-board, decoration of desserts, new amusements immediately after dinner, may be introduced, which would have an air of refinement and delicacy.

By such examples he may easily substitute one expense, which may become a national improvement, in the place of another, where the luxury produces no such effect. And when prodigality and expense have neither the good effect of giving bread to the poor, nor of accelerating circulation at home in favour of the public, I can see no reason why a statesman should interest himself for their support; and much less, why a speculative person, who investigates the methods only of making mankind happy by rendering mutual services to each other, should strain a subject, in order to find arguments proper to make either the apology or panegyric of the various schemes of dissipation.

I need not add, as a restriction upon this principle of discouraging the importation of foreign commodities, that when such a branch of trade becomes necessary to be carried on, in order to engage a neighbouring nation reciprocally to consume of home-superfluities; in this case, the luxury of the consumers of the foreign produce has an evident tendency to national improvement. If, for example, delicate wines, and raw silk, be imported as a return for salt herrings and raw hides, the support of such trade is evidently the means of making the rich consume these articles of home-production, by converting them into burgundy and velvet.

These considerations regard the augmentation or at least the preservation of national wealth. If they are attended to, it is hardly possible that any part of what is already acquired, can go abroad; and in this case the whole balance of the exportation of natural produce becomes clear again.

There are still several things to be observed with regard to the exportation of natural produce. Such articles as are in great abundance, and are not produced in other countries, as wines in the southern countries of Europe, ought always to be exported by the natives, because considerable profits must be made upon such a trade; and on such occasions, a people ought to be wise enough to keep such profits for themselves.

But if other nations will not receive them, unless they be imported by their own subjects, then the statesman may impose a duty upon exportation, which is one way of sharing the profits with the carriers. All the precaution necessary, in imposing this duty, is not to raise it so high as to diminish the demand; nor to give an encouragement to a neighbouring nation, to enter into competition for such a branch of trade.

Neighbouring states which furnish the same articles of natural produce, regulate, commonly, the duties upon exportation, in such a manner as nearly to compensate all differences which strangers may find, between trading with one or with the other. Or they grant particular privileges to the nations with whom they find it most for their advantage to trade.
If the natural advantages upon such articles are less considerable, no duty can be imposed. Exportation may then be encouraged by granting still greater privileges to strangers or others, who may promote the exportation at little cost to the state.

If, in the last place, the natural produce of a country be common to others, where it is perhaps equally plentiful, it will be difficult to procure the exportation of it; and yet it may happen, that too great an abundance of it at home may occasion inconveniences. In this case, the statesman must give a premium or bounty upon exportation, as the only method of getting rid of a superfluity, which may so much influence the whole mass of the commodity produced, as to sink the price of the industry of those employed in it, below the standard of their physical necessary. By giving, therefore, this premium, he will support industry in this branch; he will take nothing from the national wealth; and the exportation, which takes place in consequence of the bounty, will be clear gain. This is an uncommon operation in trade, but it has so intimate a connection with the doctrine of taxes, and the proper application of public money, that I will postpone the farther consideration of it until I come to these branches of my subject; and the rather, because this book is swelling beyond its due proportion.

I have little occasion to speak of importations into a country which exports no manufactures. The ruling principle in such cases, is to suffer no importation but what tends to encourage the exportation of the surplus of natural produce, and which, at the same time, has no tendency to rival any branch of domestic industry. Thus it is much better for a northern country to pamper the taste of her rich inhabitants with wines and spices, than to discourage agriculture by the importation of rice and foreign grain; supposing the alternative offered to her choice, and the one as well as the other to be the returns for her own superfluity exported.

I come next to the consideration of her inland trade, and consumption of her own manufactures. Here there is no question of either an increase or diminution of her wealth, but merely of making it circulate in the best manner to keep every body employed. Several considerations must here influence our statesman's conduct, and a due regard must be had to every one of them. I shall reduce them to three different heads, and pass them in review very cursorily, as we have already sufficiently explained the principles upon which they depend.

First, To regulate consumption and the progress of luxury, in proportion to the hands which are found to supply them.

Secondly, To regulate the multiplication of inhabitants according to the extent of the fertility of the soil. These two considerations must constantly go hand in hand.

So long, therefore, as the statesman finds his country still capable of improvement, so long may he encourage a demand for work, and even countenance new branches of superfluous consumption; since the equivalent to be given for them must of necessity prove an encouragement to agriculture. But whenever the country becomes thoroughly cultivated and peopled to the full proportion of its own produce, a check must be put to multiplication, that is, to luxury, otherwise misery and depopulation will follow; unless indeed we suppose, that numbers ought to be supported even at the expence of national wealth; the fatal consequences of which we have already pointed out.

Thirdly, He should regulate the distribution of the classes of his people, according to the political situation of the
country.

This is the most complicated case of all. It would be imprudent, for example, in a very small state situated on the continent, to distribute all its inhabitants into producers and consumers, as we have called them on several occasions; that is, into those who live upon a revenue already acquired, and those who are constantly employed in acquiring one by supplying the wants of the other. There must be a third class; to wit, those who are maintained and taken care of at the expense of the whole community, in order to serve as a defence. This set of men give no real equivalent for what they receive; that is to say, none which can circulate or pass from hand to hand; but still they are usefully employed as members of a society mutually tied together by the band of reciprocal dependence. Here no vice is implied; but at the same time, the statesman must attend to the consequences of such a distribution of classes.

The richer any state is, the more it has to fear from its neighbours; consequently, the greater proportion of the inhabitants must be maintained for its defence, at the expense of the industry of the other inhabitants. This must diminish the number of free hands employed in manufactures, and in supplying articles of consumption: consequently, it would be imprudent to encourage the progress of luxury, while public safety calls for a diminution of the hands which must supply it. If in such circumstances luxury do not suffer a check, demand will rise above the proper standard; living will become dearer daily, prices will rise, and they will prove an obstacle to the recovery of foreign trade; an object of which a prudent statesman will never lose sight for a moment.

It is for these and other such considerations, that many small states are found to fortify their capital; to keep a body of soldiers in constant pay, bearing a great proportion to the number of the inhabitants; to form arsenals well stored with artillery, and to institute sumptuary laws and other regulations proper to check luxury. Nothing is so wise in every respect! Their territory cannot be extended nor improved, nor can their inhabitants be augmented, but at the expence of their wealth; for such as gain their livelihood at the expence of strangers, are at present out of the question. Were their own citizens therefore permitted, out of the abundance of their wealth, to give bread to as many workmen as their extravagance could maintain, the public stock would be constantly diminishing, in proportion to the foreign subsistence imported for these supernumeraries, and paid for at the expence of the luxurious; which would be just so much squandered out of the general wealth.

In other states which are extended, powerful by means of wealth, and strong by nature and situation, whose safety is connected with the general system of European politics, which secures them against conquest; such as Spain, France, Great Britain, &c. the progress of luxury does little harm (as these territories are still capable of infinite improvements) provided it does not descend to the lower classes of the people.

It ought to be the particular care of a statesman to check its progress there, otherwise there will be small hopes of ever recovering foreign trade. Whereas, if the lower classes of a people continue frugal and industrious, from these very circumstances trade may open anew, and be recovered by degrees, in proportion as luxury comes to get footing in other nations, where the common people are less laborious and frugal.

Luxury, among those who live upon a revenue already got, and who, by their rank in the state, are not calculated for industry,
has the good effect of affording bread to those who supply them; but there never can be any advantage in having luxury introduced among the lower classes, because it is then a mean only of rendering their subsistence more chargeable, and consequently more precarious.

Having thus briefly laid together the principal objects of a statesman's care, upon the cessation of the foreign trade of his people, I shall finish my chapter, by pointing out some general consequences relative to the spirit, government, and manners of a people, which reason and experience shew to be naturally connected with such a revolution.

Nothing is more certain than that the spirit of a nation changes according to circumstances. While foreign trade flourishes, the minds of the monied people are turned towards gain. Money, in such hands, is generally employed to procure more, not to purchase instruments of luxury; except for the consumption of those prodigal strangers who are thereby becoming daily poorer. It is this desire of becoming rich, which produces frugality. A man is commonly frugal while he is making a fortune; another very commonly becomes extravagant in the enjoyment of it; just so would it be with nations, were a wise statesman never to interpose.

When, by the cessation of foreign trade, the mercantile part of a nation find themselves cut off from the profits they used to draw from strangers; and on the other hand, perceive the barriers of the nation gradually shutting against every article of unprofitable correspondence, they begin to withdraw their stocks from trade, and seek to place them within the country. This money is frequently lent to landed men, hitherto living within bounds, for two most substantial reasons. First, because there was little money to be borrowed, from the high rate of interest, owing to the great profits on foreign trade; and because the national stock was then only forming. The second, because the taste of the times was frugality. But when once the money usually employed in buying up loads of work for the foreign markets, comes to fall into the hands of landed men, they begin to acquire a taste for luxury. This taste is soon improved and extended by an infinity of arts, which employ the hands formerly taken up in furnishing the goods for exportation. Thus by degrees we see a rich, industrious, frugal, trading nation, transformed into a rich, ingenious, luxurious, and polite nation.

As the statesman formerly kept his attention fixed on the preservation of an equal balance between work and demand, and on every branch of commerce, in order to prevent the carrying off any part of the wealth already acquired; he must now direct his attention towards the effects of the domestic operations of his wealth. He was formerly interested in its accumulation; he must now guard against the consequences of its circulation.

While the bulk of a nation's riches is in foreign trade, they do not circulate within the country; they circulate with strangers, against whom the balance is constantly found. In this case, the richest man in a state may appear among the poorest at home. In foreign countries you may hear of the wealth of a merchant, who is your next door neighbour at home, and who, from his way of living, you never knew to be worth a shilling. The circulation of money from home-consumption will then be very small; consequently, taxes must be very low; consequently, government will be poor.

So soon as all this load of money which formerly was continually going backwards and forwards, and scarcely penetrated into the country, is taken out of foreign trade, and thrown into
domestic circulation, a new scene opens. Every one now begins to appear rich. That wealth which formerly made the admiration of foreigners, now astonishes the proprietors themselves. The use of money, formerly, was to make more of it: the use of money now, is to give it in exchange for those or such like commodities, which were then consumed by strangers only.

It is this revolution in the spirit of a people, which renders the consideration of the balance of their wealth an object of the greatest political concern: because upon the constant fluctuation of it, among the several classes of inhabitants, is laid the foundation of public opulence.

Government must constantly be respected, feared, and obeyed by the people governed; consequently, it must be powerful, and its power must be of a nature analogous to that of the subjects. If you suppose a great authority vested in the grandees of a kingdom, in consequence of the number and dependence of their vassals, the crown must have still a more powerful vassalage at its command: if they are powerful by riches, the crown must be rich. Without preserving this just balance, no government can subsist. All power consists in men, or in money.

If upon the cessation of foreign trade we suppose a vast quantity of wealth thrown into domestic circulation, the statesman must follow new maxims. He must promote the circulation of it so as to fill up the blank of foreign consumption, and preserve all the industrious who have enriched him. The quicker the circulation is found to be, the better opportunity will the industrious have of becoming rich speedily; and the idle and extravagant will become the more quickly poor. Another consequence equally certain is, that the quicker the circulation be, the sooner will wealth become equally divided; and the more equally it be divided, the more equality will be found in power. From these principles it will follow, that upon such a revolution of national circumstances, a popular government may very probably take place, if the statesman do not take proper care to prevent it.

This may be accomplished by the imposition of taxes, and these may be differently laid on, according to the spirit of the government.

By taxes a statesman is enriched, and by means of his wealth, he is enabled to keep his subjects in awe, and to preserve his dignity and consideration.

By the distribution of taxes, and manner of levying them, the power is thrown into such hands as the spirit of the constitution requires it should be found in. Are they imposed in a monarchy, where every man is taught to tremble at the King's name, the great men will be made rich by his bounty, and the lower classes will be loaded and kept poor; that they may, on easier terms, be engaged to fill those armies which the Prince entertains to support his authority at home, and his influence abroad.

Here independent people will always be looked upon with an evil eye, and considered as rivals to the Prince, who ought to be the only independent person in the state.

In limited governments, where the sovereign has not the sole power of taxation, they will be laid on more equally, and less arbitrarily; provided the theory of them in general be well understood. Here every man must know what he is to pay, and when; and the amount of the tax must bear a proportion, on one hand, to the exigencies of the state; and on the other, to the quantity of circulation which takes place upon the payment of it; that is, a man must not be made to pay all the state can demand of him for a
year, upon his making a trifling, though most essential, acquisition of a necessary article of subsistence.

I think I have observed one remarkable difference in the point of view in levying taxes in countries, where these two forms of government are established.

Under the pure monarchy, the Prince seems jealous, as it were, of growing wealth, and therefore imposes taxes upon people who are growing richer. Under the limited government they are calculated chiefly to affect those who from rich are growing poorer.

Thus the monarch imposes a tax upon industry; where every one is rated in proportion to the gain he is supposed to make by his profession. The poll-tax and taille, are likewise proportioned to the supposed opulence of every one liable to them. These, with others of the same nature, are calculated (as it is alleged) to establish an equality in the load supported by the subjects; by making the industrious, and money-gatherers, contribute in proportion to their gains, although the capital stock from which these profits arise be concealed from the eyes of the public.

In limited governments, impositions are more generally laid upon consumption. They encourage industry, and leave the full profits of it to make up a stock for the industrious person. When the stock is made, that is, when it ceases to grow, it commonly begins to decrease: the number of prudent people, who live precisely upon their income, is very small. It is therefore upon the dissipation of wealth, in the hands of private people, that the state is enriched. Thus the career towards poverty is only a little abridged: he who is in the way of spending his estate will get at the end of it, if his life be spared; and therefore there is no harm done to him, and much good done to the state, in making a part of his wealth circulate through the public coffers.

The only precaution necessary to be taken in taxing consumption, is, to render the impositions universally equal, and to prevent their affecting what is purely necessary, or producing an unequal competition between people of the same denomination. Such impositions have still a worse effect, than those which fall upon growing wealth: they prevent the poor from being able to subsist themselves. A fellow-feeling excites compassion among those of the lower classes; they endeavour to assist each other, and by this operation, like a pack of cards, set up by children upon a table, the first that is thrown down tumbles down another, until all are laid flat; that is, misery invades the lower classes: more than one half of a people.

From these principles (which I have been obliged to anticipate) we may gather the necessity of taxes, in states where foreign trade begins to decay. Without them, there is no security for government against the power of domestic wealth. Formerly, Princes lived upon their domain, or patrimonial estate. What domain would be sufficient, at present, to support the expense of government? And if government be not able to hold the reins of every principle of action within the state, it is no government, but an idol, that is, an object of a voluntary respect. The statesman, therefore, must hold the reins; and not commit the management of the horses to the discretion of those whom he is employed to conduct.

Another consequence of taxes, is, that the more luxury prevails, the more the state becomes rich: if luxury, therefore, breeds licentiousness, it at the same time provides a curb against its bad effects.

This augmentation of wealth produces a double advantage to the statesman: for, besides the increase of the public revenue,
the progress of luxury changing the balance of wealth constantly, by removing it from the rich and extravagant, to the poor and laborious, renders those who were formerly rich, and consequently powerful, dependent upon him for their support. By the acquisition of such persons, he gains additional credit, and supports his authority. Thus wealth and power circulate and go hand in hand.

It may be asked, how these principles can be reconciled with the vigour and strength commonly found in the government of flourishing trading nations; for in such we must suppose few taxes, consequently a poor and therefore a weak government; and a rich, consequently, a powerful people?

I answer, that under such circumstances, a people are commonly taken up with their trade, and are therefore peaceable; and as their wealth does not appear, being constantly in circulation with strangers, the influence of it is not felt at home. While wealth is employed in pursuit of farther gains, it cannot give power. consequently, as to all political effects at home, it is as if it did not exist; and therefore there is no occasion for the state to be possessed of a wealth they have no occasion to employ. If such a nation be attacked by her enemies, she becomes wealthy in an instant; every one contributes to ward off the common danger: but if, on the contrary, her tranquillity be disturbed at home, the rebellion generally proves successful; which is a confirmation of the principles laid down. I might illustrate this from many historical remarks. I shall suggest only to my reader, to examine the nature of the Dutch revolutions, and to compare the success of rebellions in France and England, during the last century, with others of a fresher date. Here the reader may consult the learned Mr Hume's observation upon the commencement of the civil war. History of Great Britain, vol. i. p. 325.

When, therefore, foreign trade has ceased for some time, and luxury has filled up the void, a considerable part of national wealth begins to circulate through the public treasury. It is natural then for great men to resort to court, in order to partake of the profits of government; and for the statesman to be fond of attaching such people to his interest, in order to be a constant check upon the turbulent spirit, which new-gotten wealth may excite in the minds of one set of people, and desperate fortunes raise in those of others.

While there was little circulation of money in Europe, and few taxes, there was small profit to be made in the following of Kings. These were more formidable to their enemies than profitable to their friends. The great men of the state lived upon their lands, and their grandeur resembled that of the Prince; it consisted in the number and dependence of their vassals; who got as little by their Lord, as he did by the King. The poor in those days were plundered of the little money they had, by the great; now the great are stripped of the largest sums, by the numbers of poor, who demand from them on all hands, the just equivalent for their industry.

When Princes find their great men all about them, all asking, and all depending for different marks of their favour, they may perceive the great change of their situation, produced by luxury, and a swift circulation. This revolution has not been sudden, it has been the work of several centuries; and I think we may distinguish three different stages during this period.

The first during the grandeur of the feudal government: then the great barons were to be consulted, and engaged to concur in the King's wars, because they were those who paid the expence,
and suffered the greatest loss. These are called by some the days of liberty; because the states of every country in Europe almost, were then in all their glory: they are called so with great reason, when we consider the condition of the great only.

In those days there were seldom any troubles or disturbances in the state, seldom any civil wars levied against the King, but such as were supported by the grandees; who, either jealous of their own just rights, or ambitious of acquiring others at the expence of the crown, used to compel their vassals, or engage them by the constitutional influence they had over them, to disturb the public tranquillity.

The second stage, I think, may be said to have begun with the times of industry, and the springing up of trade. Such Princes, whose subjects began to enrich themselves at the expence of other nations, found, on one side, the means of limiting the power of the great lords, in favour of the extension of public liberty. The lords, on the other side, when they wanted to disturb the public tranquillity, did not, as formerly, vindicate their own privileges, so much as they combined with the people and moved them to revolt, on popular considerations.

This may be called the period of confusion, out of which has arisen certain determinate forms of government; some drawing nearer to the monarchical, others nearer to the popular form, according as the power of Princes has been more or less able to support itself, during the shock of the revolution, and the overturn of the balance between public and private opulence.

The third and last stage, of which I shall speak at present, may be fixed at the period when the proportion of the public revenue became adequate to the mass of national wealth; when general laws were made to govern, and not the arbitrary power of the great. The grandees now, from being a bridle on royal authority, are often found dependent upon it for their support. The extraordinary flux of money into the treasury, enables Princes to keep splendid courts, where every kind of pleasure and amusement is to be had. This draws together the rich men of the state. The example of the sovereign prompts these to an imitation of his expence, this imitation increases consumption, which in its turn augments the King's income, as it diminishishes that of every other person.

When the great men of a kingdom have exhausted their estates, in paying a regular court to the Prince, they employ the credit they have acquired with him during the time of their dissipation, to obtain marks of his favour, in order to support them in their decline. By these they are enabled to live in as much state as before. They find no difference in their situation; unless perhaps they should accidentally reflect, that the fund which produced their former opulence, was in their own possession; whereas that of their present wealth is in the hands of their master.

To compensate this difference, they are made to acquire, by the favour of the court, advantages which they never could have enjoyed from the largest independent fortune.

The luxurious system of living, everywhere introduced, draws the wealthy together, either in the capital or in other great cities of the kingdom; where every one compares the expence and figure he makes, with that of others who are about him. A person honoured with the King's favour, of the same quality with another, acquires, from this circumstance, a great superiority. He commands, I shall suppose, in the place; he is the person to whom people must apply, in order to obtain favours, perhaps justice; he is adorned with a title, or outward mark of
distinction, which procures him respect and consideration; and, which is still more, he is on the road to a farther elevation. It requires a great stock both of philosophy and good sense, not to be dazzled with these advantages. Independence, compared with them, is but a negative happiness. To be truly happy, we must have power, and have other people to depend on us.

Chap. XXVI

Of the Vibration of the Balance of Wealth between the Subjects of a modern State

We have frequently mentioned this balance, as an object of great importance to a statesman who is at the head of a luxurious nation; which having lost its foreign trade, has substituted in the place of it, an extensive inland commerce. This will supply the loss of the former, so far, as equally to provide employment, and, consequently, subsistence, to every one inclined to be industrious; although it must prove quite ineffectual for augmenting the national wealth already acquired.

I shall first explain what I mean by the balance of wealth vibrating between the members of society; from which will be seen why I rank this also among the political balances of a modern state.

It has been observed in the beginning of the nineteenth chapter, that the great characteristic of what we call liberty, is the circulation of an adequate equivalent for every thing transferred and every service performed.

By wealth I understand the circulating adequate equivalent. The desires of the rich, and the means of gratifying them, make them call for the services of the poor: the necessities of the poor, and their desire of becoming rich, make them cheerfully answer the summons; they submit to the hardest labour and comply with the inclinations of the wealthy, for the sake of an equivalent in money.

This permutation between the two classes, is what we call circulation; and the effects produced by it upon the political situation of the parties, at the precise time of the circulation, and the consequences, after it is completely effected, explain what is called the balance of wealth.

To render our ideas more correct, let us consider the money on one side, and the prestations, as the civilians call them, or performances of any kind, on the other, as reciprocal equivalents for one other; and then let us examine the nature of those prestations which tend to put these equivalents into circulation; that is to say, what are the things which money can purchase.

These we may divide, with the lawyers, into corporeal and incorporeal. The corporeal may again be divided into consumable and inconsumable; and the incorporeal into personal service, and what the lawyers call jura, rights in or to any thing whatever. I cannot fully explain myself without the help of this distribution.

Let us next consider the effects of the circulation of money, as it has for its object, the acquisition of the four several species here laid down.

First, of inconsumable things. Secondly, of things consumable. Thirdly, of personal service. Fourthly, of rights acquired in or to any thing whatever.

First, the only thing inconsumable is the surface of the earth. This must not be taken in a philosophical, and far less in a chemical sense. A thing is consumed, so far as it concerns our
inquiry, the moment it becomes useless, or even when it is lost.

The surface of the earth, therefore, is the only thing inconsumable; because, generally speaking, it never can cease to be useful, and never can be lost; it may be changed, but the earth must always have a surface. What is said of the surface, may be understood likewise of that small part of its body accessible to man, for supplying him with what he finds useful there, as the produce of mines.

Next to the earth itself, nothing is less consumable than her metals, consequently coin may very properly be classed under the head of things inconsumable; although it may be lost, and even worn out in circulation.

Let us now consider the effects of circulation in the purchase of land. (A), I shall suppose, has a piece of land, and (B) has one thousand pounds weight of gold coin, which the laws of society have constituted to be an adequate circulating equivalent for every thing vendible. They agree to make an exchange. Before the exchange, the balance of their wealth is equal; the coin is worth the land, the land is worth the coin; the exchange makes no alteration, nor has it the effect of making any afterwards; the new landlord may apply himself to the improvement of the soil, the moneyed man to the turning of his thousand weight of gold coin to the best advantage; consequently, by this transaction, no vibration of the balance seems to be affected.

If coin itself be the object of sale, the consequences are much the same. (A) has a guinea, (B) has twenty-one shillings, the exchange they make produces no alteration in their circumstances. The same holds good in other species of circulation, such as the transmission of money by inheritance. (A) dies and leaves his money to (B); here the possessor of the money changes only his name, perhaps his inclinations, and that is all. In like manner, a person pays his debts, and withdraws his bond, or other security; no balance is affected by this circulation, matters stand between the parties just as before.

The nature, therefore, of circulation, when one inconsumable commodity is given for another, is, that it operates no vibration in the balance of wealth between the parties; because, in order to produce this, one must remain richer than he was before, and the other proportionately poorer.

Secondly, under the second head of alienation, to wit, that of consumable commodities, is comprehended every thing corporeal, except money, and land, which money may purchase. Here two things deserve our attention. First, the simple substance, or the production of nature; the other, the modification, or the work of man. The first I shall call the intrinsic worth, the other, the useful value. The value of the first must always be estimated according to its usefulness after the modification it has received is entirely destroyed, and when by the nature of the thing both must be consumed together, then the total value is the sum of both. The value of the second must be estimated according to the labour it has cost to produce it. An example will make this plain.

The intrinsic worth of any silk, woollen, or linen manufacture, is less than the primitive value employed, because it is rendered almost unserviceable for any other use but that for which the manufacture is intended. But the intrinsic substance of a loaf of bread loses nothing by the modification, because the last cannot be consumed without the first. In a piece of silver-plate curiously wrought, the intrinsic worth subsists entire, and independent of the useful value, because it loses
nothing by the modification. The intrinsic value, therefore, is constantly something real in itself; the labour employed in the modification represent a portion of a man's time, which having been usefully employed, has given a form to some substance which has rendered it useful, ornamental, or, in short, fit for man, mediately or immediately.

Let us now apply these distinctions to the different circumstances which attend consumption, in order to perceive their effects.

The consumption of the intrinsic value of any commodity, takes place the moment the matter employed begins to diminish, and is completed so soon as it is consumed totally. The consumption of the useful value proceeds in like manner, in proportion as the use it is put to makes the value of it diminish, or disappear altogether.

Let us next take an example, and examine the effects of circulation in the purchase of things consumable, as to the vibration of the balance of wealth. (A) has a piece of coin, (B) has something which his labour has produced; they make an exchange. (A) hitherto has neither gained or lost, neither has (B); but (A) begins to make use of what he had purchased with his coin, and in using it a part disappears; that moment the balance begins to turn against him. (B), on the other hand, exchanges his piece of coin with another, whom we shall call (C), and gets in return a piece of wood; if (B) puts this piece of wood into the fire, in proportion as the wood consumes, the balance is returning to its level between (A) and (B), and is changing in favour of (C). If (B), instead of burning his wood, makes a beam of it for supporting his house, the balance will turn more slowly, because the wood is then longer in consuming; but if he makes some useful piece of furniture of one part of his wood, he may warm himself with the remaining part of it, and with the coin he gets for his work, may buy a beam for his house, and even food to eat. If (B) stops at this period, and works no more, he will find himself just upon a level with (A), so soon as his fire is burnt out, his beam rotten, and his food consumed; and the whole balance will be found in favour of (C); provided that by his industry he has been able to procure for himself all his necessaries, and preserve the piece of coin entire. Here then is the spur to industry; to wit, the acquisition of this balance, which gives a relative superiority even among those of the lowest classes, and determines their rank as well as their political-necessary, according to the principles laid down in the twenty-first chapter.

The essential characteristic of this vibration of the balance of wealth, is the change in the relative proportion of riches between individuals. But it must be observed, that under this second species we are to consider the change of proportion no farther than as it is produced by the circulation of a free adequate equivalent, of such a nature as to be transferable to another hand without any diminution. The consumption, therefore, is the only thing which makes the balance turn. While the consumable commodity remains entire in the hands of the purchaser, he still remains possessor of the value, and may, by inverting the operation, return to the possession of the same species of wealth he had before.

Here it may be asked, if money be absolutely necessary for producing a vibration of this balance by the means of consumption. We may easily conceive the greatest inequality between the members of a state, without supposing the existence of money. We may suppose the property of lands unequally divided,
and a great surplus of subsistence found in the hands of one individual, which may by him be given in exchange for the produce of industry. Under such circumstances then it may be asked, if without money there can be such a thing as a vibration in the balance of wealth? supposing in this case the term wealth to imply, in general, the means of purchasing whatever man can perform or produce.

I answer, that no doubt the balance may be susceptible of small vibrations, because even in the exchange of consumable commodities, the consumption may go on faster on one side than on the other; but I think, unless the inconsumable fund of wealth (which is what gives the superiority, and which in the example alleged, we supposed to be coin) can be made to change hands according to the adequate proportion of the consumption made, we cannot say properly, that a vibration can be operated in any considerable degree.

Let us suppose (A) to be a proprietor of a bit of land, and (B) an industrious workman; in order that (B) may purchase the land of (A), it must be supposed that (A) is very extravagant, and that he inclines to consume a much greater proportion of work than what is equivalent to all the surplus produce of his land. Now in order to supply (A) to the value of the land itself, (B) must distribute his work to many different persons, and take in exchange, not such things as he has use for himself, but such as may be found useful to (A). But so soon as (A) has paid to (B) the whole surplus of his land, what fund of credit will he find in order to engage (B) to furnish more? He cannot pay him in land, because this fund is not susceptible of circulation; and every expedient that could be fallen upon to keep accounts clear between them, is neither more or less than the introduction of money, either real or symbolical.

By real money, is meant what we call coin, or a modification of the precious metals, which by general agreement among men, and under the authority of a state, carries along with it its own intrinsic value.

By symbolical money, I understand what is commonly called credit, or an expedient for keeping accounts of debt and credit between parties, expressed in those denominations of money which are realized in the coin. Bank notes, credit in bank, bills, bonds, and merchants' books (where credit is given and taken) are some of the many species of credit included under the term symbolical money.

In the example before us, we may suppose that (A) having no more circulating equivalent to give (B) for his work, and being desirous to consume of it to the value of his land, shall agree to issue notes of hand, every one of which shall carry in it a right to an acre of land, to a fruit tree, to ten yards of the course of a river, &c. and that every such parcel of property, shall be esteemed at a certain proportion of work. This agreement made, he goes on with his consumption, and pays regularly, and adequately, the value of what he receives; and in proportion as consumption proceeds on the side of (A), the balance of wealth must turn in favour of (B); whereas while (A) kept his bit of land, and (B) his faculty of working up an equivalent for the surplus of it, the balance stood even: because the land on one hand, and the industry on the other, produced adequate equivalents for each other. The produce of both was consumable, and was supposed to be consumed; which operation being over, the land and the industry remained as before, ready to produce anew. Here then is the effect of credit or symbolical money. Now I ask, whether the notes of hand given by (A) to (B), do not contain as
real a value, as if he had given gold or silver? and farther, whether it appears, that the country where they live becomes any richer by this invention? does this note any more than declare, who is the proprietor of the value contained?

Nothing is so easy as to invent a money which may make land circulate as well as houses, and every other thing which is of a nature to preserve the same value during the time of circulation. Whatever has a value, may change hands for an equivalent, and whenever this value is determined, and cannot vary, it may be made to circulate, as well as a pound of gold or silver made into coin, and in the circulation to produce a vibration in the balance of wealth.

Those nations, therefore, who circulate their metals only, confine industry to the proportion of the mass of them. Those who can circulate their lands, their houses, their manufactures, nay their personal service, even their hours, may produce an encouragement for industry far beyond what could be done by metals only. And this may be done, when the progress of industry demands a circulation beyond the power of the metals to perform.

This anticipation of the subject of the following books, is here thrown in merely to enable my reader to form to himself an idea of the extent of the subject we are at present upon, and to help him to judge to what length luxury, that is consumption, may be carried. Since, by what we have said, it appears that there is no impossibility for a people to throw the whole intrinsic value of their country into circulation. All may be cut into paper, as it were, or stamped upon copper, tin, or iron, and made to pass current as an adequate equivalent for the produce of industry: and as there are no bounds to be set to consumption and prodigality, it might be possible, by such an invention, in the compass of a year, to circulate an equivalent in consumable commodities produced by industry, for the whole property of the most extended and most wealthy kingdom. That this is no chimerical supposition, appears plain by the activity of many modern geniuses, who, in an inconsiderable space of time, find means to get through the greatest fortunes; that is to say, in our language, they throw them into circulation by the means of the symbolical money of bonds, mortgages, and accounts. But does this species of circulation increase the riches of the state? surely no more than it would increase the riches of France or England, to carry all the plate in the two kingdoms to be coined at the mint. The use of symbolical money is no more than to enable those who have effects, which by their nature cannot circulate (and which, by-the-bye, are the principal cause of inequality), to give, to the full extent of all their worth, an adequate circulating equivalent for the services they demand. In other words, it is a method of melting down, as it were, the very causes of inequality, and of rendering fortunes equal.

The patrons therefore of Agrarian laws and of universal equality, instead of crying down luxury and superfluous consumption, ought rather to be contriving methods for rendering them more universal. If they blame what is called perpetual substitutions of property or entails (made by parents in favour of their posterity as yet unborn), because they are in some respects prejudicial to industry; they should not, I think, find fault with this charming leveller dissipation, the nurse of industry, and the only thing intended to be prevented by such entails.

Some have persuaded themselves, that an equality of fortune would banish luxury and superfluous consumption. Among the rest, is M. de Montesquieu, an author for whom I have the highest
esteem, and who has, in this respect, been copied by many others. But I never found his idea set in a clear light. Equality of fortune would certainly change the nature of luxury, it would diminish the consumption of some, and would augment the consumption of others; but without making people idle, it could never destroy industry itself, and while this subsists in an equal degree, there must be the same quantity of what it produces regularly consumed. Farther this proposition never can be advanced, but on the supposition that the luxurious person, that is, the consumer, must be richer than he who supplies him. This I cannot by any means admit to be true. Must the carter who drinks a pot of beer be richer than the ale-houseman? Must a country-girl, who buys a bit of ribbon, be richer than the haberdasher who sells it? Must the beau be richer than his taylor? the traveller than the banker who gives him his money? the client than the lawyer? the sick than the physician?

How then does it appear that equality must prevent luxury, unless we suppose every one confined to an absolute physical-necessary, and either deprived of the faculty of contriving, or of the power of acquiring any thing beyond it. This principle Lycurgus alone laid down for the basis of his republic; and yet riches were known in Sparta, as well as poverty.

Absolute equality, de facto, is an absurd supposition, if applied to a human society. Must not frugality amass, and prodigality dissipate? These opposite dispositions are of themselves sufficient to destroy, at once, the best regulations for supporting equality; and, when carried to a certain length, must substitute in its place as great an inequality as the quantity of circulation is capable to produce. Whatever circulates may stagnate. Why was there so great an equality at Sparta? because there was little circulation. Why are the Capucins in a state of perfect equality? because among them there is no circulation at all.

If therefore such variations in the balance of wealth depend on the difference of genius among men, what scheme can be laid down for preserving equality, better than that of an unlimited industry equivalent to an universal circulation of all property, whereby dissipation may correct the effects of hoarding, and hoarding again correct those of dissipation? This is the most effectual remedy both against poverty and overgrown riches; because the rich and the poor are thereby perpetually made to change conditions. In these alterations in their respective situations, the parties who are changing by degrees, must surely in their progress towards a total alteration, become, at one time or other, upon a level, that is, to an equality; as the buckets in a well meet, before they can pass one another.

Thirdly, The first species of things incorporeal, which may be purchased with money, is personal service; such as daily labour, the attendance of a menial servant, the advice of a physician, of a lawyer, the assistance of skilful people in order to acquire knowledge, the service of those employed in the administration of public affairs at home and abroad, or for the defence of a kingdom by sea or land; the residence of great men at court, who do honour to princes, and make their authority respected; and even when money is given to procure amusement, pleasure, or dissipation, when no durable and transferable value is given in return.

There is a kind of resemblance between the species here enumerated, and what we called the useful value in consumable commodities. In the one and the other, there is an equivalent
given for a man's time usefully employed; but the difference between them lies in this: that the useful value being supported, or having for a substratum, as the schoolmen call it, the intrinsic substance, is thereby rendered permanent and vendible; whereas here, for want of a permanent and transferable substance, the personal services, though producing advantages which are sufficiently felt, cannot however be transferred for the adequate price they cost.

The circulation produced by this third species of acquisition, operates an instantaneous vibration of the balance. The moment the personal service is performed, it may be said to be consumed; and although the purchaser has received a just equivalent for the money given, and in some cases may even be thereby put in a situation to indemnify himself of all his expence, by performing the like services to others, yet every body must perceive that such services cannot properly be considered as a circulation of the former.

Fourthly, The acquisition of the other species of things incorporeal, that is, rights, produces little more balance, when an adequate circulating equivalent is given for them, than the sale of land; because a right implies no more than a power to use, that is, to consume; and, by the use, the right is not diminished: it is balanced by the use of the money; the money therefore and the right being both permanent, there is no vibration in the scales. Of this species are all servitudes; the purchasing of privileges or immunities, even the lending of money at interest, may here not improperly be classed.

Here it will, perhaps, be alleged, that an example may be given, where the creation of such a right, though purchased with an adequate circulating equivalent, produces the greatest vibration possible in the balance of wealth. It is when a state contracts debts, and when the public creditors acquire a right to general impositions on the people for the payment of their interest. This objection requires a little explanation in order to be removed and I have proposed it chiefly for the sake of introducing an illustration of my subject.

If it be said, that in this example a vibration in the balance of wealth within the state is implied, then I say that it must take place either, first, between the creditors and the state, or, secondly, between the state and the people, or, thirdly, between the creditors and the people. But,

First, The creditors acquire no balance against the state because they have given one inconsumable commodity for another; to wit, money for an annual income. The money is worth the income, the income is worth the money. If therefore any change in the balance comes afterwards to take place, it must be in consequence of other operations quite independent of this transaction. But let us suppose, which is but too frequently the case, that here money must be considered as a consumable commodity, because it is only borrowed in order to be spent. In this light does not the creditor seem to acquire a balance in his favour against the state, so soon as the money is actually spent? I answer in the negative: because a state, by expending the money borrowed remains with respect to the creditors just as wealthy as before. It is the people who pay the interest, for which the state gives them in return no adequate transferable equivalent.

Secondly, Here it is urged, that this being the case, the state has acquired a balance against the people according to the principles above laid down, where it was said, that upon occasions, where money is given for personal service, and where nothing transferable is given in return, the balance turns
instantaneously in favour of him who received the money.

To this I answer, that as to the interest paid by the people, the state does not receive it for herself, but for the creditors. The personal services are then supposed to be already paid for, and the vibration has taken place before the interest becomes due. Therefore the balance does not turn between the state and the people.

In the levying of taxes which are destined to pay the interest of money already spent, the public gives no adequate equivalent on one hand; and on the other, it is not enriched with respect to the people, any more than it was impoverished with respect to the creditors, by spending the money borrowed; and since there is no reciprocal change in the situation of the two parties, I do not see how we can infer any vibration in the balance of wealth between them. We shall presently see between whom the balance is made to vibrate.

Thirdly, The balance between the creditors and the people is what at first sight appears to be principally affected; because the first receive a constant retribution from the latter, in consequence of the loan. But neither is any true vibration found here, either adequate to the loan, or to the money spent. First, because the creditors themselves are part of the people who contribute towards all impositions on consumptions, which are commonly the most regular, the most permanent, the most generally appropriated for the payment of the interest. Secondly, because the money spent by the state, if spent at home, returns to other hands indeed, but still returns to the people, of whom we are here speaking. And, thirdly, because there is no transaction at all between the creditors and the people.

Objection. By this way of reasoning it would appear, that the exhausting of a people by taxes, makes no vibration in the balance of their wealth.

Answer. If the people be exhausted, it must be by enriching strangers. This case should at present be excluded, as we have laid aside the consideration of foreign relations. But allowing this circumstance also to be implied in the objections made, I agree that every penny of money sent out of a country, for no real and permanent equivalent received in return, operates a vibration in the wealth between nation and nation; but none between subject and subject. To this it is answered, that when taxes are high, many people are ruined while others are enriched: this operates a vibration. I allow it; but then I reply, that by the very supposition in every such case, the money must remain at home; whereas in the former, it was supposed to be expended abroad. Now we are not at present examining the effects of debts and taxes, in changing the balance between man and man, but only between the three cumulative interests above specified, the state, the people and the creditors.

Let me now ask, what is the effect of taxes on the vibration of the balance of wealth between individuals?

I answer, that whoever pays a tax, appears to pay for a personal service. He receives no corporeal equivalent which can be alienated by him for the same value; and he who is employed by the state, and is paid with the produce of taxes, acquires a balance in his favour against those who pay them. When the amount of taxes goes abroad for foreign services, there can be no alteration upon the balance at home, as has been said; neither is there any when it remains at home: the people, that is, the whole nation taken together, and the creditors, are as rich as before. Let this suffice at present, as to the effects of debts and taxes upon the balance of national wealth.
Industry is the only method of making wealth circulate, so as to change its balance between the parties; all kinds of circulation which produce no such change, are foreign to the present purpose.

A man dies and leaves his wealth to another, nobody loses by this, but he who is no more; a second pays his debts, neither debtor, or creditor can be said to change circumstances by the operation. A merchant buys a quantity of merchandize for ready money, he thereby loses no balance of his wealth; it is true he has given money for consumable effects; but the balance does not operate until the consumption takes place, and as he is not supposed to buy in order to consume, I rank this branch of circulation among those which do not influence the balance.

Thus we find two different kinds of circulation in a state; one which makes the balance turn, and one which does not. These objects are of no small consequence to be attended to in the right imposition of taxes, as shall, in its proper place, be more fully explained. At present it is sufficient to observe, that the proper time of laying on taxes is at the time of circulation: because the imposition may then be always exactly proportioned to the sum circulating; consequently, to the faculties of the persons severally interested.

In all excises, or taxes upon consumption, it is the money of the consumer which is taxed, in the instant of the payment; so that he against whom the balance is to turn, has the additional load to pay. This species of tax, imposed at the time of circulation, is what produces the largest sums to a state. I never heard of a proper expedient for taxing the person in whose favour the balance is to turn, though from the principles which are afterwards to be laid down, we may perhaps discover one.

As for the other species of circulation, where the balance does not turn, it is not so much the custom to impose very considerable taxes upon it: there are however several examples to be met with, which point out how they may be imposed. The casualties paid upon the change of vassals or upon the fall of lives, in leases upon lands in England; the confirmation of testaments in Scotland; investitures in Germany; the centième denier, the lods et ventes, and the control upon the acts of notaries in France; the emoluments of the Rota in Spain, and in many Roman Catholic countries, are of this species. Upon the same principle, taxes more or less considerable might be laid upon every branch of this kind of circulation; for which purpose, it would be highly necessary to find out all the ramifications of it, by analysing it to the bottom, as we have hitherto run through it very superficially.

Chap. XXVII

Circulation and the Balance of Wealth, objects worthy of the attention of a modern Statesman

Having explained the nature of circulation, and of this balance, we are next to point out the objects of a statesman's attention concerning them.

I. He ought to form to himself a clear and distinct idea of the nature, properties, and effects of circulation; a word frequently made use of without much meaning, and in a vague and undeterminate sense.

The term circulation is, perhaps, one of the most expressive in any language, and is therefore easily understood. It represents the successive transition of money, or transferable
commodities, from hand to hand, and their return, as it were in a circle, to the point from which they set out. This is the rough idea which every one, who understands the word at all, must form its meaning. But a statesman’s perceptions should be more accurate as well as more complex.

He must combine the consequences which result from this successive transition, and attend to the effects produced by it. He must not consider the money only, which is a permanent value, passing from hand to hand, but weigh the consequences of the variety of consumption which it draws along with it, in its progress.

Before a guinea can travel from London to York, it may be the means of consuming a thousand times its value, and as much more, before it can return to London again. Every stop the guinea makes in its course, marks a want of desire to consume, in him who possesses it, for the time. If, therefore, in any country, there were but one guinea in circulation, all consumption would stop (or barter would take place) the moment it fell into the hands of a miser. This leads us to the second object of a statesman’s attention.

II. He ought at all times to maintain a just proportion between the produce of industry, and the quantity of circulating equivalent, in the hands of his subjects, for the purchase of it; that, by a steady and judicious administration, he may have it in his power at all times, either to check prodigality and hurtful luxury, or to extend industry and domestic consumption, according as the circumstances of his people shall require the one or the other corrective, to be applied to the natural bent and spirit of the times.

For this purpose, he must examine the situation of his country, relatively to three objects, viz. the propensity of the rich to consume; the disposition of the poor to be industrious; and the proportion of circulating money, with respect to the one and the other.

If the quantity of money in circulation is below the proportion of the two first, industry will never be able to exert itself; because the equivalent in the hands of the consumers, is then below the proportion of their desires to consume, and of those of the industrious to produce. Let me illustrate this by a familiar example taken from a party at quadrille.

When, on dealing the cards, every one puts in a fish into the stake, according to the old English fashion, a very few fishes are sufficient for the circulation of the game: but when you play the aces, the consolation and the multiplication of beasts according to the French custom, you must have a box with contracts, fishes, and counters; so reducing all to the lowest denomination, every player has occasion for above five hundred marks. It is therefore plain, that the number of marks ought to be in proportion to the circulation of the game. But at play, as in a state, circumstances render this circulation very irregular. Fortune may run so equally among the players, during a considerable time, that none of them may have occasion to pay away above the value of a hundred counters, and while this equality continues, there will not be found the smallest interruption in the circulation. But let one of the players have a run of good luck, you will soon see three of the boxes empty and all the circulating marks heaped up before the winner. Fortune at quadrille, forms stagnations of the circulating equivalent, as industry and frugality form them in a state. At this period of the game, must not the players stop, or must they not fall upon a way of drawing back their marks into circulation?
If they borrow back from the winner, this represents loan. If they buy back their marks with money from their purses, it represents what I call throwing solid property into circulation.

From this familiar example, we may judge how necessary it is that the circulating fund be constantly kept up to the proportion of the occasions for it. It is impossible to determine the proportion of coin necessary for carrying on the circulation of a country, especially of one where neither loan, or paper-credit, that is, the melting down of solid property, are familiarly known. Here is the reason: the solution of the question does not depend upon the quantity of coin alone, but also upon the disposition of those who are the possessors of it; and as these dispositions are constantly changing, the question thereby becomes insoluble.

It is, therefore, the business of a statesman, who intends to promote circulation, to be upon his guard against every cause of stagnation; and when he has it not in his power to remove these political obstructions, as I may call them, by drawing the coin of the country out of its repositories; he ought (in proportion as the other political interests of his people are found to require it) to facilitate the introduction of symbolical money to supply its place.

A great political genius is better discovered by the extent of his perceptions, than by the minute exactness of them in every part of the detail. It is far better for a statesman to be able to discern (though superficially) every object of government under all its relations, than to be able to trace any one with the greatest accuracy. This is apt to occupy him too much, and no one relation should ever engross his whole attention.

I cannot omit in this place taking notice of a very judicious remark of M. de Melon, an eminent political French writer, who was employed by the Duke of Orleans in state affairs, during his regency of the kingdom.

'It belongs only (says he) to one who has had the direction of every branch of government to lay down a general plan of administration, and even then, one must not expect from such a person, very particular details with respect to many objects, of which he himself is entirely ignorant, and which he has been obliged to confide to the care of others subordinate to him. A person who can stoop to a minute exactness in small affairs, proves commonly very unequal to the administration of great ones. It is enough for such a person to know principles by experience and reflection, and how to apply fundamental maxims as occasion requires.'

I apply this observation to the point in hand. A statesman who allows himself to be entirely taken up in promoting circulation, and the advancement of every species of luxurious consumption, may carry matters too far, and destroy the industry he wishes to promote. This is the case, when the consequence of domestic consumption raises prices, and thereby hurts exportation.

A principal object of his attention must therefore be, to judge when it is proper to encourage consumption, in favour of industry: and when to discourage it, in favour of a reformation upon the growth of luxury.

If the country he governs be in a state of simplicity, and that he wishes to awaken a taste for industry and refinement, he must, as has been said, encourage domestic consumption, for the sake of multiplying, and giving bread to the industrious; he must facilitate circulation, by drawing into the hands of the public what coin there is in the country, in case he finds any part of
it locked up; and he must supply the actual deficiency of the metals, by such a proportion of paper-credit, as may abundantly supply the deficiency.

In every country where simplicity prevails, and where there is any considerable quantity of coin, a great proportion of it must be locked up: because there the consumption must be small; consequently, little circulation; consequently, either little coin, or many treasures. In such cases, therefore, a statesman must engage the possessors of these riches to part with them, at the desire of those who can give security for their worth: and he must establish the standard of an annual retribution for the loan. If this be difficult to be brought about, from the want of confidence in the moneymen, he may, in their favour, contrive expediants to become the borrower himself, at the expence of the alienation of certain rights, or the creation of new privileges, in lieu of interest; and when he has engaged them to part with their coin, he may lend it out to such as have both solid property and a desire to consume; but who, for want of a circulating fund to purchase superfluities, have hitherto lived in simplicity.

The introduction, therefore, of loans upon interest, is a very good expedient to accelerate circulation, and to give birth to industry.

Objection. But here it is objected, that such a plan is looked upon by some nations to be contrary to the precepts of the christian religion, and therefore a statesman cannot permit it. To this I can make no answer, because I am no casuist; but I can propose an expedient which will supply the defect of borrowing at interest; and, as it may serve to illustrate the principles I am now upon, I shall here introduce it.

The intention of permitting loans upon interest, is not to provide a revenue to those who have ready money locked up, but to obtain the use of a circulating equivalent to those who have a sufficient security to pledge for it. If the statesman, therefore, shall find himself withheld by the canons of his church, from drawing the coin of his subjects into circulation, by permitting the loan of it upon interest, nothing is more easy than to invent another species of circulation, where no interest at all is necessary.

Let him open an office, where every proprietor of lands may receive, by virtue of a mortgage thereon, a certain proportional value of circulating paper of different denominations, the most proper for circulation. He may therein specify a term of payment in favour of the debtor; in order to give him an opportunity to call in his obligation, and relieve the engagement of his property. But this term being elapsed, the land is to belong to the creditor, or the paper to become payable by the state, if required, which may in consequence become authorised either to sell the land engaged, or to retain a proportional value of the income, or of the property of the land itself, as shall be judged most expedient.

Farther, let him constitute a real security for all debts upon every species of solid property, with the greatest facility in the liquidation of them, in favour of those who shall have given credit to the proprietors for merchandise of any kind. To compass this, let all entailts, substitutions, and fidei commissa, or trusts, restraining the alienation of land-property, be dissolved; and let such property be rendered as saleable as household furniture. Let such principles influence the spirit of the government; let this sort of paper-credit be modified and extended according to circumstances, and a taste for consumption
will soon take place.

The greatest of all obstacles to industry in its fancy, is the general want of credit on both sides. The consumers having no circulating value, the difficulty of liquidating what they owe by the alienation of their lands, prevents their getting credit; and the many examples of industrious people giving way, on account of bad payments, discourages others from assisting them in the beginning of their undertaking.

From these principles we may gather, that a statesman who intends to increase industry and domestic consumption, should set out by providing a circulating fund of one kind or other, which ought always to be ready, and constantly at the command of those who have any sort of real equivalent to give for the consumption they incline to make; for as specie may oftentimes be scarce, a contrivance must be fallen upon immediately to supply the want of it.

The utility of this kind of credit, or paper-money, is principally at the instant of its entering into circulation; because it is then only that it supplies the want of real specie; and by this invention the desire to consume creates, as it were, the circulating equivalent, without which the alienation of the produce of industry would not have taken place; consequently, the industry itself would have suffered a check.

But in the after-circulation of this paper-money from hand to hand, this utility comes to cease; because the subsequent consumer, who has another man's paper to give in exchange, is already provided with a circulating equivalent, and therefore, were it not for the wearing of the specie, or difficulty of procuring it, it is quite indifferent both to the state, as well as to circulation, whether this paper continue to pass current, or whether it be taken up, and realized by the debtor, and gold and silver be made to circulate in its place.

Let me now endeavour to make this whole doctrine still more plain, by an example.

Suppose a country where there is a million of pieces of gold employed necessarily in carrying on the ordinary circulation, a million of pieces of the same value locked up, because the proprietors have no desire to spend them. Suppose the revenue of the solid property of the country to be worth also a million a year; and that if the fund itself could be sold, it might be worth twenty millions of the same specie. Suppose no such thing as credit or paper-money to be known, and that every man who inclined to make any consumption, must be previously provided with a part of the circulating million, before he can satisfy his inclination.

Under these circumstances, the statesman resolves to establish industry, and finding that by his people's taking a taste for a greater consumption, the million which was formerly sufficient for carrying on circulation, is no longer so; he proposes to those who have the other million locked up, to borrow it from them at 5 per cent and the better to engage them to comply with his proposal, he offers to impose duties upon the whole of the inhabitants to the annual amount of fifty thousand pieces of gold, to be paid annually to the creditors, in return for their treasure. If this scheme be adopted, he may, upon good security, lend out his million in small sums, to every one who inclines to borrow; or by premiums and other encouragements given to his infant manufactures, he may throw it into the hands of the public, that is, into circulation. Here is one method for increasing the quantity of a circulating fund, when an augmentation upon the consumption of the produce of industry
comes to demand it.

But let us now suppose this regular plan of borrowing to be contrary to what is called the constitution of the state, to religion, or to the spirit of the people, what must be done to supply the place of such a scheme?

The statesman must then fall upon another contrivance, by extending the use of pledges, and instead of moveables, accept of lands, houses, &c. The Monte pieta at Rome issues paper money upon moveable security deposited in their hands. Let the statesman, without exacting interest, do the same upon the lands of his subjects, the best of all securities. While the lands subsist, this paper-money must retain its value; because I suppose the regulations to be such as to make it convey an indisputable right to the lands engaged. The advantage of such an establishment will be, that as formerly no man could purchase the smallest produce of industry, without having a part of the circulating million of pieces of gold; every body now who has an inclination to consume, may immediately procure paper-money in proportion to his worth, and receive in return whatever he desires to possess.

Now let me suppose that this paper-money shall in time, and from the growing taste for superfluities, amount to the value of five millions of pieces of gold. I ask, whether the real value of this paper is any way diminished, because it exceeds, by far, all the gold and silver in the country, and consequently cannot all at once be realized by the means of the coin? Certainly not: because it does not draw its value from any representation of these metals, but from the lands to which it conveys a right. Next, I ask, if the country is thereby become any richer? I answer, also, in the negative: because the property of the lands, if sold being supposed worth twenty millions, the proprietors of the paper are here supposed to have acquired, by their industry, five millions of the twenty; and no more than the remaining fifteen millions belong to the landlords.

Let us now suppose a million of this paper-money to fall into the hands of those who have no inclination to spend it. This is the case of the frugal, or money-hoarding persons: will they not naturally choose to realize their paper, by taking possession of the lands represented by it? The moment this operation takes place, the million of paper-money is annihilated, and the circulating capital is reduced to four millions of paper, and one million of specie. Suppose, on the other hand, that those who have treasures which they cannot lend at interest, seeing a paper money in circulation, which conveys a right to solid property, shall first purchase it with their million of pieces of gold, and afterwards lay hold of a proportional part of the land: what effect will this double operation produce upon the circulating fund? I answer, that the currency, instead of being composed, as formerly, of one million of coin and five millions of paper, will, at first, on the buying up of the paper, consist of two millions of coin and five millions of paper; and so soon as the million of paper bought up comes to be realized upon the land, it will be thereby extinguished; consequently the circulating coin will be raised to two millions, and the paper will be reduced to four. Here then is a very rational method of drawing all the coin of the country from the treasures of the frugal, without the help of interest. Let me take one step farther, and then I will stop, that I may not too far anticipate the subject of the fourth book.

I suppose, that the statesman, perceiving that the constant circulation of the coin insensibly wears it away, and reflecting that the value of it is entirely in proportion to its weight, and
that the diminution of the mass must be an effectual diminution of the real riches of his country, shall call in the metals and deposit them in a treasure, and shall deliver, in their place, a paper-money, having a security upon the coin locked up. Is it not plain, that while the treasure remains, the paper circulated will carry along with it as real (though not so intrinsic) a value as the coin itself could have done? But if this treasure comes to be spent, what will the case be then? It is evident, that the paper, conveying a right to the coin, will then as effectually lose its value, as the other species of paper conveying a right to the lands, and issued, as we have supposed, by the proprietors of them, would have lost its value, had an earthquake swallowed up, or a foreign conqueror seized, the solid property engaged as a security for it.

The expedient, therefore, of symbolical money, which is no more than a species of what is called credit, is principally useful to encourage consumption, and to increase the demand for the produce of industry. And bringing the largest quantity of coin possible into a country, cannot supply the want of it in this respect; because the credit is constantly at hand to every one who has property, and the other may fail them on a thousand occasions. A man who has credit may purchase at all times, though he may frequently be without a shilling in his pocket.

Whenever, therefore, the interest of a state requires that the rich inhabitants should increase their consumption, in favour of the industrious poor, then the statesman should fall upon every method to maintain a proportion between the progress of industry, and the gradual augmentation of the circulating fund, by enabling the inhabitants to throw with ease their solid property into circulation whenever coin is found wanting. Here entails are pernicious.

On the other hand, when luxury begins to make too great a progress, and when it threatens to be prejudicial to foreign trade, then may solid property be rendered more unwieldy, and entails may then become useful: all moveable debts, except bills of exchange in foreign circulation, may be stripped of their privileges, and particularly, as in France, of the right of arresting the person of the debtor. Usury ought then to be punished severely; even something like the Senatus Consultum Macedonianum, which made the contract of loan void on the side of the borrowers, while they remained under the power of their fathers, may be introduced. Merchants' accounts should no more be allowed to enjoy a preference to other debts; but on the contrary, be made liable to a short prescription. In a word, domestic circulation should be clogged, and foreign circulation accelerated. When foreign trade again comes to a stop, then the former plan may be taken up a-new, and domestic circulation accelerated and facilitated, in proportion as the produce of industry and taste for superfluity require it.

III. A statesman ought carefully to distinguish between those branches of circulation which operate a vibration in the balance of wealth, and those which do not, in order to regulate the taxes which he may think proper to lay upon his people.

In treating of this third object of a statesman’s attention, I shall confine myself to the application of those principles which point out the necessity of taxation among a luxurious people, become wealthy by the means of a foreign trade which they now have lost; and where the industrious can no longer be made to subsist but by means of a great domestic circulation. This is the object of our present inquiry.

In every case where the balance of wealth is made to vibrate
by circulation, there is an opportunity of imposing a tax upon consumption, perfectly proportioned to the quantity of the circulation. Now by the imposition of taxes, and the right employment of the amount of them, a statesman has it in his power to retard or to promote the consumption of any branch of industry. By the imposition of duties he may either check luxury when he finds it calling off too many hands from other more necessary occupations; or by granting premiums, he may promote consumption or exportation upon branches where it is expedient to increase the hands employed, which last is the reverse of taxation; or in the third place, when foreign trade begins to bear a small proportion to domestic consumption, he may profit of luxury, and draw a part of the wealth of the luxurious into the public treasure, by gently augmenting the impositions upon it; for when taxes are gently increased, consumption is not checked; consequently, this is the proper method to be followed, when luxury does no harm. But when it proves hurtful, the rise in the impositions should be sudden, that they may operate the effects of violent revolutions which are always accompanied with inconveniences, and on such occasions every inconvenience will mark the success of the operation. An example will make this plain.

If you want to check the drinking of spirituous liquors, let every alteration of your oeconomy concerning them, either as to the impositions upon the consumption, or regulations in retailing them, proceed by jerks as it were; if you want to increase the revenue, from the propensity people have to poison themselves with spirits, your augmentations and alterations may be gentle and progressive.

Here let me observe by the way, that the best method for a statesman to curb any sort of vice among his people, is to set out by facilitating the gratification of it, in order to bring it once upon a regular and systematical footing, and then by sudden and violent revolutions in the administration of the oeconomy of it, to destroy it and root it out.

Were all the strumpets in London received into a large and convenient building, whither the dissolute might repair for a while with secrecy and security, in a short time, no loose women would be found in the streets. And it cannot be doubted, but that by having them all together under certain regulations, which might render their lives more easy than they are at present, the progress of debauchery, and its hurtful consequences, might in a great measure be prevented. At Paris, they are to be found in their houses, because the police never troubles them there, while they commit no riot or disturbance. But when they are persecuted in their habitations, they break forth into the streets, and by the open exercise of their profession, the delicacy of modesty is universally hurt and but too frequently blunted, and the example which those prostitutes openly set to their own sex, debauches more women than all the rakes in town do.

I hope this digression will not be misconstrued into an apology for public stews, in which, instead of following good regulations for suppressing the vices with which they are filled, the principal object is frequently to encourage the abuses for the sake of making them turn to account as a branch of revenue. Such a plan of administration represents a statesman who turns against his people those arms, which he had provided for their defence. My intention is very different, it is to curb vice as much as possible, and to shut up what cannot be rooted out within the bounds of order, and to remove it as a nuisance from the eyes of the public, and from the contagious imitation of the innocent.
I now come to the object of a statesman's attention, relative to that branch of circulation which implies no vibration of the balance of wealth between the parties concerned.

The more perfect and the more extended any statesman's knowledge is of the circumstances and situation of every individual in the state he governs, the more he has it in his power to do them good or harm. I always suppose his inclinations to be virtuous and benevolent.

The circulation of large sums of money brings riches to light for a moment, which before and after are commonly hid from the eyes of the public. These branches of property therefore, which have once made their appearance in this species of circulation, should not be lost sight of until they come naturally to melt away, by returning into the other branch of which we have been speaking; that is, until they be fairly spent, and the balance be made to turn against the former proprietors of them. After this revolution, they will circulate for a while in small sums, and remain imperceptible; until with time they come to form new stagnations; then they will be lent out again, or employed in the purchase of lands; and falling once more under the eye of the state, they will again become an object of the same attention as formerly.

Nothing is more reasonable, than that all property which produces an annual determinate income, should be made to contribute to the common burthens of a state. But those taxes which are intended to operate upon so moveable a property as ready money, ought to be imposed with a most gentle hand, and even so as not to appear directly to affect it. The statesman here must load his wealthy citizens with duties, as Horace loads his sovereign with adulation, never addressing his compliments directly to the emperor, but conveying them to him in the most elegant manner, through the channel of an interposed person. Thus people, possessing large capitals of ready money, which in a moment they can transport beyond the reach of the most extended jurisdiction, may have certain privileges granted them which may attach them to the country, (in England, for example, a vote in a county or borough,) and then in consequence of their rank, not because of their money, be made to come under a sort of capitation, or other similar imposition bearing another name. Might not the creditors of this nation be represented in parliament, and in consequence of so great a privilege, and the additional security thereby granted to the funds, be made afterwards to come under taxation as well as other proprietors of a determinate revenue? An admirable hint for the imposition of such taxes, is to be met with in a certain great European monarchy, where the highest order of knighthood is distinguished with a ribband, a star, and a pension of about an hundred and thirty pounds sterling a year. But so soon as any one is raised to this dignity, he pays exactly this very sum in lieu of capitation. The pension was given by the prince who instituted the order; the capitation followed in a subsequent reign, and now appears rather a mark of distinction than a burthen.

IV. The next object of a statesman's attention, proper to be taken notice of, is the different political considerations which must occur to him when he compares the consequences of turning the balance of wealth against the industrious members of a state, with those vibrations which take place against the not working part of the inhabitants. In other words, the different effect of taxes, as they severally affect those who consume in order to reproduce, and those who consume in order to gratify their desires.
The one and the other consumption implies a vibration in the balance of wealth, and whenever there is a vibration, there we have said that a proportional tax may be imposed.

But as the intention of taxes, as I understand them, is to advance only the public good, by throwing a part of the wealth of the rich into the hands of the industrious poor, and not to exhaust one part of a nation in order to enrich another; from hence it follows, that no necessary article of consumption should ever be taxed to an industrious person, but in such a way as to enable him to draw back the full amount of it, from those who consume his work. By this means, the whole load of taxes, must fall upon the other class of inhabitants, to wit, those who live upon the produce of a fund already acquired.

Let me here observe, by the way, that if taxes are rightly laid on, no industrious person, any more than another who lives upon his income, will ever be able to draw back one farthing of such impositions as he has paid upon his consumption of superfluity. This shall in its proper place be made sufficiently plain; at present it would be a superfluous anticipation of the doctrine of taxation, to point out the methods of compassing this end. My intention at present is to recapitulate only the objects of a statesman's attention, with regard to the consequences of circulation, and the vibrations of the balance of wealth; and having shewn how nearly those principles are connected with those of taxation, this alone is sufficient to shew their importance.

V. A statesman ought to attend to the difference between the foreign and domestic circulation of the national wealth.

This object, though in part relative to foreign commerce, must not be passed over without observation. In fact, there is no nation entirely deprived of foreign communications; therefore, although a statesman, who is at the head of a luxurious people, may act in general as if there were none at all, yet still he ought to be attentive to the consequences of circulation with his neighbours, so far as it does or may take place.

Every commercial correspondence with foreign nations, not carried on by the exchange of consumable commodities, must produce a vibration of the balance of wealth, either in favour or prejudice of the interest we have in our eye. But it does not follow, because there is a vibration, that therefore a statesman has the same liberty of imposing taxes upon every article of consumption, as if the two scales were vibrating within the country subject to his administration.

When the consumers are his subjects, he may safely impose a tax on the goods imported; and although he should gradually augment the duty, so as to diminish the consumption of such goods, as well as the amount of the duty, he will, by discouraging the importation of them, most amply indemnify his people by keeping their wealth at home.

When the foreigners are the consumers, the case is very different: for you cannot oblige a man who is not your subject, to pay beyond the advantage he gains by your correspondence. It is therefore, as has been said, upon the exportation only of goods, where the nation has great natural advantages over her neighbours, that any duty can be raised.

VI. The last object I shall mention as worthy of a statesman's attention, is, the rules of conduct he should prescribe to himself, as to extending or contracting taxation, according as he finds a variation in the proportion between the FOREIGN and DOMESTIC circulation of his country.

For this purpose he must know exactly the proportions of the one and the other; he must compare the quantity of domestic
consumption, with the produce of industry and quantity of importations.

If domestic consumption be equal to the sum of both, the country must annually lose the value imported. In this case, taxes are to be raised by sudden jerks, especially upon importations; not to increase the produce of them, but to prevent the increase of luxury and dissipation of national wealth.

If domestic consumption do not exceed the produce of industry, this will prove that exportation is at least equal to importation. In this case the exportation must be supported; and when this can no otherwise be done, a part of the taxes levied upon home-consumption must be distributed in premiums upon the articles of exportation; and when this also becomes ineffectual, then all importations for home-consumption must be cut off according to the principles above laid down.

If the domestic consumption should really fall short of the produce of industry, it marks a flourishing foreign trade. Prices then must be kept low, as has been abundantly explained; consequently there will be less profit from taxes; because every penny imposed, which affects the price of exportable goods, must be refunded out of the net produce of them, and all the expence of collecting this part will be entirely lost to the public: the remainder, therefore, will be greater or less, according as foreign trade is great or small.

In proportion, therefore, as domestic circulation gains ground, foreign trade must decay, and taxes become necessary; in order, with the amount of them, to correct the bad effects of luxury, by giving larger premiums to support exportation. And in proportion as a statesman's endeavours to support by these means the trade of his country becomes ineffectual, from the growing taste of dissipation in his subjects, the utility of an opulent exchequer will be more and more discovered; as he will be thereby enabled both to support his own authority against the influence of a great load of riches thrown into domestic circulation, and to defend his luxurious and wealthy subjects from the effects of the jealousy of those nations which enriched them.

To conclude: the exportation of work, and the supporting of a superiority in the competition of foreign markets (as has been said, and as shall be farther explained) seem to be the most rational inducements to engage a statesman to begin a scheme of imposing considerable taxes upon his people, while they enjoy any share of foreign commerce. If such taxes continue to subsist after the extinction of it, and are then found necessary; this necessity is itself a consequence of the change in the spirit and manners of a people become rich and luxurious.

The charge of government, under such circumstances, must greatly increase, as well as the price of every commodity. Is it not very natural, that he who is employed by the state should receive an equivalent proportioned to the value of his services? Is it to be supposed, that a person born in a high rank, who, from this circumstance alone, acquires an advantage in most nations, hardly to be made up by any acquired abilities, will dedicate his time and his attendance for the remuneration which might satisfy an inferior? The talents of great men deserve reward as much as those of the lowest among the industrious; and the state is with reason made to pay for every service she receives. This circulation of an adequate equivalent, we have said to be the palladium of liberty, the band of gentle dependence among freemen; and the same spirit ought to animate every part of the political body. That nothing is to be done for nothing, is a fundamental political maxim in every free
government, and obligations, not liquidated by a just equivalent, form pretensions beyond their worth; and are constantly accompanied with discontent at one time or other.

Another use of taxes, after the extinction of foreign trade, is to assist circulation, by performing, as it were, the function of the heart of a child, when at its birth that of the mother can be of no farther use to it. The public treasure, by receiving from the amount of taxes, a continual flux of money, may throw it out into the most proper channels, and thereby keep that industry alive, which formerly flourished, and depended upon the prosperity of foreign commerce only.

In proportion, therefore, as a statesman perceives the rivers of wealth (as we have called them above), which were in brisk circulation with all the world, begin to flow abroad more slowly, and to form stagnations, which break out into domestic circulation, he ought to set a plan of taxation on foot, as a fund for premiums to indemnify exportation for the loss it must sustain from the rise of prices, occasioned by luxury; and also for securing the state itself, against the influence of domestic riches, as well as for recompensing those who are employed in its service.

This system ought to be carried on and extended in proportion to the decay of foreign trade; and when this comes in a manner to cease, then the increase of taxes, and the judicious application of them, going hand in hand, the state itself will support circulation, by receiving with one hand, while it is giving out with the other; until by a prudent management under the care and direction of an able statesman, through time and perseverance, every internal vice be corrected, and foreign commerce be made once more to flourish from the principles we have been laying down, and from what may be farther said to illustrate them in the subsequent books of this inquiry.

While industry is kept alive there is still ground for hope. Manners change, and the same luxury which extinguished foreign trade, by calling home the wealth employed in that species of circulation, may afterwards, by keeping industry alive at home, and by throwing a sufficient power of wealth into the hands of a good statesman, render the recovery of that trade no difficult project, to one who has an instrument in his possession so irresistible in removing every obstacle in the way of his undertaking.

This represents a kind of circulation of the spirit and manners of a people, who, under the government of able statesmen, may be rendered happy in every situation; and since, from the nature of man, no prosperity can be permanent, the next best thing to be done, is, to the yield to the force which cannot be resisted; and, by address and management, to reconduect a people to the height of their former prosperity, after having made them travel (as I may say) with as little inconvenience as possible, through all the stages of decline.

Chap. XXVIII

Circulation considered with regard to the Rise and Fall of the Price of Subsistence and Manufactures

The intention of this chapter is to apply the principles we have been in search of, to the solution of some questions, which have been treated by those great masters of political reasoning, Messrs de Montesquieus and Hume. The ideas they have broached are so pretty, and the theory they have laid down for determining the
rise and fall of prices so simple, and so extensive, that it is no wonder to see it adopted by almost every one who has written after them.

I have not forgot how much I was pleased when I first perused these authors, from the easy distribution which a general theory enabled me to make of certain classes of my ideas then lying without order, in that great repository of human crudities, the memory; which frequently retains more materials, than people, commonly, have either time, or perhaps capacity rightly to digest.

I am very far from pretending to any superiority of understanding over those gentlemen whose opinions I intend to review. accident alone has led me to a more minute examination of the particular circumstances, upon which they have founded their general maxims; and, in consequence of my inquiries, I think I have discovered, that in this, as in every other part of the science of political oeconomy, there is hardly such a thing as a general rule to be laid down.

There is no real or adequate proportion between the value of money and of goods; and yet in every country we find one established. How is this to be accounted for?

We have, in the fourth chapter of this book, already inquired into the principles which point out the influence of trade upon the variation of the price of goods; but the question now comes to be, how to fix and determine the fundamental price, which is the object of variation. It has been said, that the price of a manufacture is to be known by the expence of living of the workman, the sum it costs him to bring his work to perfection, and his reasonable profit. We are now to examine what it is, which in all countries must determine the standard prices of these articles of the first necessity; since the value of them does necessarily influence that of all others.

The best way to come at truth, in all questions of this nature, is to simplify them as much as possible, that they may be first clearly understood.

Whenever a question arises about price, an alienation is necessarily implied; and when we suppose a common standard in the price of any thing, we must suppose the alienation of it to be frequent and familiar. Now I must here observe, that in countries where simplicity reigns (which are those where the decision of this question ought regularly to be sought for, since it is there only where a complication of circumstances do not concur to raise the prices of subsistence) it is hardly possible to determine any standard for the price of articles of the first necessity.

Let us examine the state of those hunting Indians who live by their bow, and of other nations where the inhabitants exercise, I may say universally, that species of agriculture which I have called a direct method of subsistence, and we shall find that the articles of food and necessaries are hardly found in commerce: no person purchases them; because the principal occupation of every body is to procure them for himself. What answer would a Scotch highlander have given any one, fifty years ago, who should have asked him, for how much he sold a quart of his milk, a dozen of his eggs, or a load of his turf? In many provinces, unacquainted with trade and industry, there are many things which bear no determinate price; because they are seldom or never sold.

Sale alone can determine prices, and frequent sale only can fix a standard. Now the frequent sale of articles of the first necessity marks a distribution of inhabitants into labourers, and what we have called free hands. The first are those who produce the necessaries of life; the last are those who must buy them:
and as the fund with which they purchase is produced from their industry, it follows, that without industry there can be no sale of articles of subsistence; consequently, no standard price determined.

Another consequence of this reasoning, is, that the sale of subsistence implies a superfluity of it in the hands of the seller, and a proper equivalent for it in the hands of the buyer; and when the equivalent is not money, it also implies a superfluity of the produce of some sort of industry; consequently, by the exchange of superfluities upon certain articles, a man procures to himself a sufficiency upon every one. This represents that gentle dependence which unites the members of a free society.

Does it not follow from this analysis of the question, that the prices of articles of the first necessity depend rather upon the occupation and distribution of the classes of inhabitants, than either upon the abundance of these necessaries, or of the money to purchase them; since many examples may be found, where these articles have borne little or no price, even in countries where money was not wanting. The reason therefore of low prices, is not the vast abundance of the things to be sold, but the little occasion any body has to buy them; every one being provided with them in one way or other, without being obliged to go to market.

How many familiar examples occur everywhere of this oeconomy! do we not find in every country, even where the numbers of the industrious free are multiplied exceedingly, more than one half of the inhabitants fed directly from the earth? Few of the class of farmers ever go to market for subsistence. Ask a country gentleman the expense of his living, he will tell you the sum of money he yearly spends, perhaps the quantity of his rents in kind, which he consumes in his house, and the rent of the lands he holds himself in farm; but it will never come into his head to reckon the value of every chicken, sheep, or bullock, with which his farm provides him, which he consumes without estimation, and which in many countries he could not dispose of for any determinate value.

From this I still conclude, that it is in countries of industry only where the standard prices of articles of the first necessity can be determined; and since in these, many circumstances concur to render them either higher or lower than in other places, it follows, that in themselves they bear no determinate proportion whatsoever, to the quantity of gold and silver in the country, as I hope presently to make still more evident.

What is it then which determines the standard value of these articles, in countries of industry? Here follows the best answer I can give to this question.

The standard price of subsistence is determined from two considerations. The first from the number of those who are obliged to buy, that is to say, of those who have them not of their own, and who are not provided with them, in lieu of service, by those who have. The second is, from the degree of employment found for those who are obliged to purchase them.

The number of the buyers of subsistence, nearly determines the quantity to be sold: because it is a necessary article, and must be provided in a determinate proportion for every one: and the more the sale is frequent, the more the price is determinate. Next as to the standard: this, I apprehend, must depend upon the faculties of the buyers; and these again must be determined by the extent of those of the greatest numbers of them; that is to
say, by the extent of the faculties of the lower classes of the people. This is the reason why bread, in the greatest famine, never can rise above a certain price; for did it exceed the faculties of the great classes of a people, their demand would be withdrawn, which would leave the market overstocked for the consumption of the rich; consequently, such persons, who in times of scarcity are forced to starve, can be such only whose faculties fall, unfortunately, below the standard of those of the great class; consequently, in countries of industry, the price of subsistence never can rise beyond the powers to purchase of that numerous class who enjoy nothing beyond their physical necessary; consequently, never to such an immoderate height as to starve considerable numbers of the people; a thing which very commonly happens in countries where industry is little known, where multitudes depend merely upon the charity of others, and who have no resource left, so soon as this comes to fail them.

The faculties, therefore, of those who labour for a physical-necessary, must, in industrious nations, determine the standard value of subsistence, and the value in money which they receive for their work will determine the standard of their faculties, which must rise or fall according to the proportion of the demand for their labour.

By this exposition of the matter, I do not pretend to have dissipated every obscurity. The question still remains complex, as the nature of it requires it should do; and the solution of it depends upon farther considerations, which now lead me to the examination of the doctrine of Messrs de Montesquieu and Hume, concerning the influence of riches upon the increase of prices. I shall begin by shortly laying this doctrine before my readers, in three propositions.

First, The prices (say they) of commodities are always proportioned to the plenty of money in the country. So that the augmentation of wealth even fictitious, such as paper, affects the state of prices, in proportion to its quantity.

Secondly, The coin and current money in a country is the representation of all the labour and commodities of it. So that in proportion as there is more or less of this representation (money), there goes a greater or less quantity of the thing represented (commodities, &c.) to the same quantity of it. From this it follows that

Thirdly, Increase commodities, they become cheaper; increase money, they rise in their value.

Nothing can be more beautiful than these ideas. They appear, at first sight, sufficiently extensive to comprehend every variation of circumstances which can happen. Who was the first author of this doctrine, I cannot say. I find it in Mr Locke, and in the Spectator for the 19th of October 1711; but they have been beautifully illustrated by Monsr de Montesquieu; and Mr Hume has extended the theory, and diversified it prettily in his political discourses; which have done much honour to that gentleman, and drawn the approbation of the learned world so much, that there is hardly a nation in Europe which has not the pleasure of reading them in their own language.

Upon examining this theory, when I came to treat of the matters it is calculated to influence, I found I could not make it answer to the principles I had pursued, in the most natural order in which I had been able to deduce them: and this consideration obliged me, with regret, to lay it aside, and to follow another, much more complex. I have already expressed the mortification I have always had upon finding myself forced to strike out a general rule, and this, of all others, had at first
hit my fancy the most; but I am obliged to say, that upon a close
examination of the three propositions, I am forced to range this
ingenious exposition of a most interesting subject, among those
general and superficial maxims which never fail to lead to error.

In order to set the matter in as clear a light as possible, I
shall make a short application of my own principles, relating to
the decision of the main question, namely the causes of the rise
and fall of prices, and conclude my chapter with some remarks
upon the three propositions above laid down, submitting the whole
to the better judgment of my reader. I have laid it down as a
principle, that it is the complicated operations of demand and
competition, which determines the standard price of everything.

If there be many labourers, and little demand, work will be
cheap. If the increase of riches, therefore, have the effect of
raising demand, work will increase in its value, because there
competition is implied; but if it has only the effect of
augmenting demand, prices will stand as formerly. What then will
become of the additional quantity of coin, or paper-money? I
answer, that in both cases it will enter into circulation, in
proportion to the rise or augmentation of demand; with this
difference, that in the first case, it will have the effect of
raising prices; because the supply is not supposed to augment in
proportion; in the second, prices will stand as they were;
because the supply is supposed to augment in proportion. These
are the consequences of the augmentation of wealth, when it has
the effect of either raising or augmenting demand. But if upon
the increase of riches it be found that the state of demand
remains without any variation, then the additional coin will
probably be locked up, or converted into plate; because they who
have it, not being inspired with a desire of increasing their
consumption, and far less with the generous sentiment of giving
their money away, their riches will remain without producing more
effect than if they had remained in the mine. As for paper-money,
so soon as it has served the first purpose of supplying the
demand of him who borrowed it, because he had at that time no
coin) it will return upon the debtor in it, and become realized;
because of the little use found for it in carrying on
circulation.

Let the specie of a country, therefore, be augmented or
diminished, in ever so great a proportion, commodities will still
rise and fall according to the principles of demand and
competition; and these will constantly depend upon the
inclinations of those who have property or any kind of equivalent
whatssoever to give; but never upon the quantity of coin they are
possessed of.

Let the quantity of the coin be ever so much increased, it is
the desire of spending it alone, which will raise prices. Let it
be diminished ever so low, while there is real property of any
denomination in the country, and a competition to consume in
those who possess it, prices will be high, by the means of
barter, symbolical money, mutual prestations, and a thousand
other inventions. Let me give an example.

Suppose a country where prices are determined, and where the
specie is sufficient for the circulation: is it not plain, that
if this country have a communication with other nations, there
must, in carrying on trade, be a proportion between the prices of
many kinds of merchandize, and that the sudden augmentation or
diminution of the specie at home, supposing it could of itself
operate the effects of raising or sinking prices, would be
restrained in its operation by foreign competition? But let us
suppose it cut off from every communication whatsoever, which
seems the only case where this theory can operate with any appearance of justness, will any body pretend, that the frugal or extravagant turn of the inhabitants will have no influence upon prices; and will it be asserted, that no variation in the spirit of a people, as to frugality and dissipation, can take place, except upon a variation in the quantity of their gold and silver?

It may be answered, that as to articles of superfluity, no doubt the genius of a people, together with the quantity of the specie, may influence prices; but that in articles of indispensible necessity, they must constantly remain in proportion to the mass of riches. This I cannot admit to be just. Let me take the example of grain, which is the most familiar. Is it not plain, from what we have said above, that the proportion of wealth, found in the hands of the lowest class of the people, constantly regulates the price of it; consequently, let the rich be ever so wealthy, the price of subsistence can never rise above the faculties of the poor industrious. And is it not also plain, that those of the lowest class of the people, who purchase subsistence must buy it with the returns they receive from the rich for their industry? Now if the quantity of the wealth of the rich does not regulate their demand for the service of the poor, must it not follow, that the price of grain, as well as of every other thing offered to sale, must depend upon the degree of competition among the rich for the labour of the poor, that is, upon the demand for industry and not on the quantity of wealth in the country?

Nobody ever denied, that the extraordinary demand for a commodity had the effect of raising the price of it: and certainly nobody will deny, that the demand for a particular commodity may be greater at one time than at another, though the same quantity of this commodity be found at both times in the country; and the same quantity of specie likewise not only in the country, but also in circulation.

I acknowledge that in a country where there is much coin, and where credit is little known, a high and extraordinary demand for an article of superfluity may raise the price more than in another where the coin is more scarce; because, on certain occasions, the price of a thing may have no other bounds than the extent of the faculties of the buyer. In like manner, in other countries, where there is scarcely coin, or credit, it may be impossible for the highest demand to raise the price of such things even to the common standard established in those where there is great wealth. But these instances appear to be too particular to serve for the foundation of a general rule, with respect to the state of prices in the present situation of the nations of Europe, which, less or more, are all in communication with one another.

I cannot here omit taking notice of two very remarkable circumstances which we learn from undoubted historical authority, which seem to contradict one another, and which throw a great obscurity upon the principles I have been endeavouring to explain. I shall therefore introduce them by way of illustration, and when they are examined, I hope they will confirm my doctrine.

The first is, that in Scotland, formerly, when coin and credit were certainly very rare, the price of eight pounds weight of oatmeal, which is now commonly sold at eight pence sterling, was then valued at no more than two-thirds of one penny: and that a labouring man used to receive one penny and one third of a penny sterling for his week's subsistence; that is to say, the value of sixteen pounds of oatmeal, which to this day is the regulated quantity given for this purpose.
There is a very curious confirmation of the authenticity of this computation, in an hospital at old Aberdeen; where in former times, some proprietors of lands had settled a certain quantity of oatmeal in favour of the poor of the hospital, with a liberty to the hospital to accept the meal in kind, or the conversion at two-thirds of a penny for every eight pounds weight. They imprudently chose the last, and to this very day they are paid according to this standard. Now it is certainly impossible that any degree of plenty whatsoever, or any failing of demand, could at present reduce the price of this commodity so very low consequently, it may be said that it is the augmentation of wealth, not that of demand, which raises prices.

The second fact we learn from antiquity, that at the time when Greece and Rome abounded in wealth, when every rarity, and the work of the choicest artists was carried to an excessive price, an ox was bought for a mere trifle, and grain was cheaper perhaps than ever it was in Scotland.

If the application of our principles to the circumstances of those times, produce a solution of these apparent inconsistencies; and if we thereby can discover that the low prices of grain, both in Scotland, where there was little money, and at Rome where there was a great deal, was entirely owing to the little demand for articles of subsistence; will it not follow, that our principle is just, and that the other, notwithstanding the ingenuity of the thought, must fail in exactness; since it will appear, that low prices may be equally compatible with wealth, and with poverty.

Now as to Scotland in former times, as in all countries where there is little industry; where the inhabitants are mostly fed directly from the earth, without any alienation of her fruits taking place; where agriculture is exercised purely as a method of subsisting; where rents are low, and where, consequently, the free hands, who live upon them for the price of their industry, must be few; the demand for grain in the public markets must be very small; consequently, prices will be very low, whether there be little, or whether there be much money in the country. The reason is plain. The demand is proportioned here, not to the number of those who consume, but of those who buy; now those who consume, are all the inhabitants, but those who buy, are the few industrious only who are free, and who gain an independent livelihood by their own labour and ingenuity: now the price of their week's subsistence in Scotland was formerly one penny one third, consequently the subsistence they bought could not rise above this standard.

Next as to the state of Greece and Rome, where slavery was established. Those who were fed by the labour of their own slaves, by those of the state, or by the grain gratuitously distributed to the people, had no occasion to go to market; consequently, they did not enter into competition with the buyers. Farther, the simplicity of manners, and the few manufactures then known, made wants in general less extensive; consequently, the number of the industrious free was small, and they were the only persons who could have occasion to purchase food and necessaries; consequently, the competition of the buyers must have been small in proportion, and prices low.

Add to this the reflections which naturally present themselves upon examining the nature of supplying the markets. These were supplied partly from the surplus produced upon the lands of the great men, laboured by slaves; who being fed from the lands, the surplus cost in a manner nothing to the proprietors; and as the number of those who had occasion to buy,
were very few, this surplus was sold cheap. Besides, the grain
distributed to the people gratis, must necessarily have kept down
the market, as a part of it would naturally, sometimes, be found
superfluous to those who received it; and consequently, come to
be sold in competition with that raised at private expence.

But when a fine mullet was brought to market, or when an
artist appeared with a curious piece of work, the case was very
different. The rich had plenty of money, who all appeared in
competition for the preference; consequently, prices rose to an
extravagant height. The luxury of those times, though excessive,
was confined to a few, and as money, in general, circulated but
slowly through the hands of the multitude, it was constantly
accumulating in those of the rich, who found no measure, but
their own caprice, in regulating the prices of what they wished
to possess, and had money to purchase.

From what has been said, it appears, that the riches of a
country have no determinate influence upon prices; although, I
allow, they may accidentally affect them: (what I mean is, that
they may influence them; but they cannot regulate them:) and if
we depart from the principles above laid down, to wit, that
prices are regulated by the complicated operation of demand and
competition, in order to follow the other, we must add a
restriction (which I observe Mr Hume has attended to on one
occasion, although he has lost sight of it on several others), to
wit, that the price of every commodity is in proportion to the
sum of money circulating in the market for that commodity; which
is almost my proposition in other words: for the money to be
employed in the purchase of any commodity, is just the measure
of the demand. But even here, the money in the market destined only
for the purchase of a particular commodity, does not regulate the
price of it. Nothing but the finishing of the transaction, that
is, the convention between the buyer and seller, can determine
the price, and this must depend upon inclination, not weight of
money, as an example will make plain.

I shall suppose grain to have been at forty shillings per
quarter, in a country market, for several months together, where
the ordinary demand for the current consumption is twenty
quarters every market day. If at any time an extraordinary demand
should happen, which may exceed all that is to be found in the
market, there will be a competition among the buyers, which will
have the effect of raising the market. Now, according to the
doctrine of our learned author, it may be said, that the corn
rises in proportion to the quantity of the specie which is in the
market, and that it is because of this increase of specie, that
the grain rises in its price. I answer, first, allowing this to
be true, can it be said, that a particular temporary, or perhaps
accidental demand for a few quarters of corn, more than usual,
implies any augmentation of the quantity of money, or the
smallest diminution either upon the total consumption, or total
quantity of grain contained in the country? For if the demand
have risen in one market, it must probably have diminished in
another, since the Same inhabitants cannot consume in two places.
This I think every person must agree to, without farther
illustration. But I say farther, that prices will not rise in
proportion to the money in the market; but in proportion to the
desire of acquiring grain in those who have this money.

Suppose the whole quantity of grain in the market to be
thirty quarters; if there be no demand for more, these will be
sold at forty shillings as the twenty quarters would have been.
But suppose the demand to be for sixty quarters, and that there
is a hundred and twenty pounds sterling ready to be employed for
corn, does it follow, that grain will rise to four pounds a quarter, because the money in the market bears this proportion to the quantity of grain? Certainly not.

We must therefore, I think, adopt the other principle, and follow the proportions of demand and competition; and then we shall find, that if the sellers want to raise their price up to the proportion of the money in the market, all demand will cease, as effectually as if it had never been made; and the sellers will afterwards be obliged to accept of such a moderate augmentation as shall be in proportion to the urgency of the demand, but never in proportion to the money ready to be employed.

The circulation of every country, as we have shewn above, must ever be in proportion to the industry of the inhabitants, producing the commodities which come to market: whatever part of these commodities is consumed by the very persons who produce them, enters not into the it. If the coin circulation of grain, nor does it in anywise affect prices of of a country, therefore, fall below the proportion of the produce of industry offered to sale, industry itself will come to a stop; or inventions, such as symbolical money, will be fallen upon to provide an equivalent for it. But if the specie be found above the proportion of the industry, it will have no effect in raising prices, nor will it enter into circulation: it will be hoarded up in treasures, where it must wait not only the call of a desire in the proprietors to consume, but of the industrious to satisfy this call.

We may therefore conclude, in consequence of the principles we have laid down, that, whatever be the quantity of money in any nation, in correspondence with the rest of the world, there never can remain in circulation, but a quantity nearly proportional to the consumption of the rich, and to the labour and industry of the poor inhabitants. The value of each particular species of which consumption is determined by a complication of circumstances at home and abroad; consequently, the proportion is not determined by the quantity of money actually in the country.

If the contrary is maintained, and if it be still affirmed that the proportion between specie and manufactures must be reciprocal and determinate, then I am authorised to draw this conclusion, to wit: That if the greatest produce of industry must be sold for what specie is found in the country, let the sum be ever so small; so in like manner, the smallest produce of industry must be sold for all the specie found in the country, let the sum be ever so great. Consequently, in the first case, we must suppose, that the industrious will never seek for a better price from abroad; and in the second, that the moneyed people must spend all they have in supplying their most moderate wants, and never seek for cheaper merchandize than what they can find at home. Consequently there can be no foreign trade, nor can there ever be any hoarding.

I shall now conclude my chapter, with a few observations upon the three propositions as they stand in their order.

Prop. 1. Prices are in proportion to the plenty of money. And thus the augmenting even of fictitious wealth, such as paper, affects the state of prices, according to its quantity.

From this, Mr Hume disapproves of the introduction of paper money, when specie is wanting, and says, that if nothing were allowed to circulate but gold and silver, the quantity being less, prices would be lower.

This is neither more or less than a project to destroy credit, with a view to support trade and industry. Because it would effectually prevent any person from making a consumption, except at the time he happened to be provided with ready money.
Does the paper-money in England keep up the prices of grain at present, January 1759? And will not every article of necessaries fall, in a short time, as low in this country as in any other in Europe; if the same measures continue to be followed?

Were all paper-money in this kingdom proscribed at once, no doubt the prices of many things would fall very considerably; but such a fall would neither be universal or equitable. The reason of this fall would not be, because the specie would become proportionally divided among all the inhabitants, according to the value of their property; nor because of the small quantity of it, since prices abroad would still regulate many at home: but because of the sudden revolution, and the violent overturn thereby produced on the balance of work and demand. The scale of the first would preponderate to such a degree, that those classes of the industrious, who work for daily subsistence in furnishing superfluities, would enter into so strong a competition with one another, that the price of their work would fall to nothing, while subsistence would remain at the price of exportation. If it be asked what could occasion this difference, I answer, because the workmen who supply superfluities, adapted to the taste of their own nation, would find no more demand for them, from the want of credit, or of a circulating fund at home to buy with; and strangers would not profit of the fall in the price of a superfluity not adapted to their own taste; but they would very willingly become purchasers of every bushel of grain become superfluous, and thereby starve so many of the inhabitants; and this last circumstance would keep the price of subsistence upon a pretty even level with that of other countries.

But if we suppose all communication cut off with strangers, would this proportion between money and prices then hold true? By no means. Here is the reason: there are many ways of alienating goods or natural produce, without the assistance of specie. Immense quantities of both may be consumed by barter, or in lieu of service, where money is never heard of; now all this portion alienated, enters into the mass of what is called produce and manufactures which come to market; but can have no influence upon the specie, nor can specie have any upon it, since the money remains inactive during these operations.

Another reason is, that there is no such thing as preserving specie of a country in an equal repartition, so as to serve the occasions of every body in proportion to their worth. The reason is manifest: money, like every other thing, will come into the hands of those who give the greatest value for it, and when the quantity of it is small in any country, where nothing can be procured without it, such proprietors of lands as have the greatest desire to consume, will purchase the specie by giving a higher interest, or by selling their lands cheaper than other people.

This alone is sufficient to prove that the repartition of specie can never be in proportion to property; and this also destroys the supposition of prices rising and falling according to the proportion of it, even in a country cut off from every foreign communication. But here is still another proof: any individual who has, by mortgaging his lands, got together a large proportion of the specie of his country, will raise prices in his own neighbourhood, by making an extraordinary demand for work; and the rest of the same country, drained of their circulating value, must diminish their demand; consequently, prices will fall elsewhere. I now come to the second proposition.

The coin and current money of a country, is the representation of all its labour and commodities; so that in
proportion as there is more or less of this representation, a
greater or less quantity of it will go for the same quantity of
the thing represented.

To this representation I cannot agree, and I apprehend this
to be the source of the error. A proper equivalent for labour and
manufactures may, in one sense, be called a representation; but
there is no necessity for this equivalent to consist in coin. Are
not meat and clothes an equivalent for personal service? Is not a
free house and a bit of land, a very good equivalent for all the
manufactures a country weaver can work up for me who am his
landlord? Were there not one penny of coin in the country, would
it follow, that there could be no alienation, or that every thing
might there be got for nothing?

Coin has an intrinsic value; and when it comes into a
country, it adds to the value of the country, as if a portion of
territory were added to it: but it has no title to represent any
thing vendible, by preference, or to be considered as the only
equivalent for all things alienable. It is made a common price,
on no other account than because of its rarity, its solidity, its
being of a nature to circulate; and suffers a correct division
without end, and because it carries its value along with it,
which is a proper equivalent for every thing; and at the same
time is by its nature little liable to vary.

Were, indeed, a statesman to perform the operation of
circulation and commerce, by calling in, from time to time, all
the proprietors of specie in one body, and all those of alienable
commodities, workmen, &c. in another, and were he, after
informing himself of the respective quantities of each, to
establish a general tariff of prices, according to our author's
rule; this idea of representation might easily be admitted;
because the parcels of manufactures would then seem to be adapted
to the pieces of the specie, as the rations of forage for the
horses of an army are made larger or smaller, according as the
magazines are well or ill provided at the time; but has this any
resemblance to the operations of commerce?

The idea of coin being the representation of all the industry
and manufactures of a country, is pretty; and has been invented
for the sake of making a general rule for operating an easy
distribution of things extremely complex in their nature. From
this comes error. We substitute a complex term, sometimes in one
sense, and sometimes in another, and we draw conclusions as if it
expressed a fixed and determinate idea.

If in algebra, x, y, z, &c. ever stood for more than a single
idea, the science would become useless; but as they never
represent but the very same notion, they never change their
nature through all manner of transpositions.

It is not the same of terms in any other science, as
abundantly appears from the question now before us: coin is
called a representation because it is an equivalent; and because
it is a representation, it must bear an exact proportion to the
thing represented. And since in some particular examples, this
representation appears to hold; therefore the rule is made
general, although circumstances may be different. If, for
example, a merchant, or a private person, has in hand a thousand
pounds worth of grain, no doubt that the thousandth part of the
merchandize is worth the thousandth part of the sum; because both
are determinate in their quantity and quality. but the parcels of
this corn, though exactly proportioned to the price of the whole,
do not draw their value from this proportion, but from the total
value of the whole mass; which is determined from the complicated
operations of demand and competition, as has been said, and not
from the specie of the country which can bear no proportion
either to the quantity or quality of the grain.

There may be vast quantities of coin in a country of little
industry; and, vice versa, coin is constantly an equivalent, but
never a representation more than any other equivalent which may
be contrived. Were the doctrine of this second proposition true,
every commodity in a country should be sold like a parcel of the
grain in the foregoing example, by the rule of three; as the
property of all the labour and manufactures of the country is to
the part I intend to alienate, so is all the gold and silver in
the country to the part I am entitled to receive. This ideal of
regulating prices may be very philosophical, but it is not very
mercantile. I now proceed to the third and last proposition.
Increase the commodities, they become cheaper: increase the
money, they rise in their value.

This proposition is much too general; the first part of it is
commonly true, the last part is more commonly false.

What can increase commodities, but a demand for them? If the
demand be equal to the augmentation, there will be no alteration
in the price.

Let extraordinary plenty increase subsistence, it will
naturally fall in the price; but it may be hoarded up, and made
to rise in spite of the plenty; it may be demanded from abroad;
this also will make it rise.

Let the production of superfluities, not exportable, be
produced by workmen whose branch is overstocked, prices will
undoubtedly fall. The same observations are true of a diminution
in the quantity of commodities. If this diminish by degrees, from
a diminution of demand, the price of them will not rise.

If the quantity of subsistence fall below the necessary
consumption of the inhabitants, the price of it will undoubtedly
rise.

If the articles of superfluity be diminished, prices will
rise in proportion only to the eagerness to buy, that is, to the
competition, not to the deficiency. On the other hand, as to coin
or money.

Increase the money, nothing can be concluded as to prices,
because it is not certain that people will increase their
expences in proportion to their wealth; and although they should,
the moment their additional demand has the effect of producing a
sufficient supply, prices will return to the old standard.

But diminish the quantity of specie usually employed in
circulation, you both retard this, and hurt the industrious;
because we suppose the former quantity exactly sufficient to
preserve both in the just proportion to the desires and wants of
the inhabitants.

These are but a few of the numberless modifications necessary
to be applied to this general rule; and I hope what I have said
will justify the observation I have made on the whole doctrine;
to wit, that it is much more specious than solid, in every one of
its three branches.

Let me just propose one question more upon this subject, and
then I shall conclude.

Suppose the specie of Europe to continue increasing in
quantity every year, until it amounts to ten times the present
quantity, will prices rise in proportion?

I answer, that such an augmentation might happen, without the
smallest alteration upon prices, or that it might occasion a very
great one, according to circumstances. Were industry to increase
to ten times what it is at present, that is to say, were the
produce of it to increase to ten times its present value,
according to the actual standard of prices, the value of every manufacture and produce might remain without alteration. This supposition is possible: because no man can tell to what extent demand may carry industry. If, on the other hand the scale of demand could be supposed to preponderate, so as to draw all the wealth into circulation, without having the effect of augmenting the supply (which I take to be impossible) then prices would rise to ten times the present standard, at least in many articles.

This solution is entirely consistent both with Mr Hume's principle and mine; because nothing is so easy in an hypothesis, as to establish proportions between things, which in themselves are beyond all the powers of computation.

Chap. XXIX

Circulation with foreign Nations, the same thing as the Balance of Trade

We have endeavoured to shew in a former chapter, how the circulation of money, given in exchange for consumable commodities, produces a vibration in the balance of domestic wealth: we are now to apply the same principles to the circulation of foreign trade; in order to find out, if there can really be such a thing as a balance upon it, which may enrich one country, and impoverish another.

It has been said, that when money is given for a consumable commodity, the person who gets it acquires a balance in his favour, so soon as he with whom he has exchanged, has begun to consume.

That if two consumable commodities are exchanged, the balance comes to a level, when both are consumed. That it is the wealth only which is found in circulation, which can change its balance; the remainder must be found locked up, made into plate, or employed in foreign trade. And it has been observed, that the quantity of money found in circulation, is ever in proportion to the sale of the produce of industry and manufactures; and that when the precious metals are not sufficient to carry on a circulation, proportionable to the demands of those who have any real equivalent to give, symbolical money may be made to fill up the void, when the interest of the state comes to require it.

We have also laid it down as a kind of general rule, that while luxury tends only to keep up demand to the reasonable proportion of the power and inclination in the industrious part of a people to supply it, then it is advantageous to a nation; and that so soon as it begins to make the scale of home-demand preponderate, by forming a competition among the natives, to consume what strangers seek for, then it is hurtful, and has an evident tendency to root out foreign trade. These principles are all analogous to one another, and should be retained while we examine the question before us.

I must still add, that the fluctuation of the balance of wealth is constantly inclining in favour of the industrious, and against the idle consumer. This however admits of a restriction, viz. the industrious must be supposed to be frugal; and the idle, extravagant. For if the industrious man consume the full produce of his own industry, he will have laboured to increase his consumption only, not his wealth: and if the idle person, by his frugality, keeps within the bounds of his yearly income, he will thereby repair every disadvantage incurred by his sloth, the balance then will stand even between them; the industry in one scale, and the fund already provided in the other, will keep both
parties on a level as before.

In order, therefore, to make the balance of domestic wealth turn in favour of a poor man, he must be both industrious and frugal.

Now let us apply these principles to a whole nation, considered as an individual in the great society of mankind. An industrious person who conducts his affairs with prudence, must either be in a way of growing richer by his industry, or of spending his income with oeconomy and discretion: so I must suppose a nation which is well governed, either to be growing richer by foreign trade, or at least in a state of not becoming poorer by it.

It is as much the duty of every statesman to watch over the conduct of those who hold the foreign correspondence of his people, as it is the duty of the master of a family to watch over those he sends to market.

I find it is the opinion of the learned Mr Hume, that there is no such thing as a balance of trade, that money over all the world is like a fluid, which must ever be upon a level, and that so soon as in any nation this level is destroyed by any accident, while the nation preserves the number of its inhabitants, and its industry, the wealth must return to a level as before.

To prove this, he supposes four fifths of all the money in Great Britain to be annihilated in one night, the consequence of which he imagines would be, that all labour and commodities would sink in their price, and that foreign markets would therefore be entirely supplied by this industrious people, who would immediately begin to draw back such a proportion of wealth, as would soon put them again upon a level with their neighbours.

This reasoning is consistent with the principles we have examined, and humbly rejected in the preceding chapter. both stand upon the same foundation, and lead to a chain of consequences totally different from the principles laid down in this inquiry.

My intention is not so much to refute the opinions of others, as briefly to pass them in review. General propositions, such as those we have been treating of, are only true or false, according as they are understood to be accompanied with certain restrictions, applications, and limitations: I shall therefore say nothing as to the proposition itself, but examine only how far the sudden annihilation of a great proportion of a nation’s wealth, can naturally be followed by the consequence which has been supposed.

For this purpose, let me suggest another consequence (different from that of the author, and flowing from the doctrine we have established) which possibly might happen, upon the annihilation of four fifths of all the money in Great Britain. I shall take no notice of the effects which so sudden a revolution might occasion; these have not been attended to by the author, and therefore I shall consider them as out of the question. I shall suppose the event to have happened, prices to have been reduced, and every immediate inconvenience to have been prevented. My only inquiry shall be concerning the unavoidable consequences of such a revolution, as to foreign trade, as to drawing back the money annihilated, and as to the preserving the same number of inhabitants, and the same degree of industry as before. If I can shew, that the event alone of annihilating the specie, and reducing prices in proportion (which I shall allow to be the consequence of it) will have the effect of annihilating both industry and the industrious, it cannot afterwards be insisted on, that the revolution can have the effect of drawing
back a proportional part of the general wealth of Europe: because the preservation of the industrious is considered as the requisite for this purpose.

Here then is the consequence, which, in my humble opinion, would very probably happen upon so extraordinary an emergency; and I flatter myself that my reader has already anticipated my decision.

The inhabitants of Great Britain, who, upon such an occasion, would be found in possession of all the exportable necessaries of life, and of many other kinds of goods demanded in foreign markets, instead of selling them to their poor countrymen, for a price proportioned to our author’s tariff, namely to the diminution of the specie, which he takes to be the representation of them, would export them to France, to Holland, or to any other country where they could get the best price, and the inhabitants of Britain would starve.

If it be replied, that the exportation would not be allowed. I answer, that such a prohibition would be highly seasonable; but quite contrary to the principle of laying trade open, and impossible to be effectual, as this author justly observes, when he says, ‘Can one imagine, ‘that all commodities could be sold in France, for a tenth of the price ‘they would yield on the other side of the Pyrenées, without finding ‘their way thither, and drawing from that immense treasure?’ Suppose this phrase to run thus: Can any one imagine, that provisions could be sold in Britain, for a fourth part of the price they would yield on the other side of the water, without finding their way thither, and drawing from that immense treasure? This is entirely inconsistent with our principles, and ruins the whole of Mr Hume’s former supposition: because the exportation of them would annihilate the inhabitants.

From this I conclude, that a nation, though industrious and populous, may reduce itself to poverty in the midst of wealthy neighbours, as a private person, though rich, may reduce himself to want, in the midst of the amusements and luxury of London or of Paris. And that both the one and the other, by following a different conduct, may amass great sums of wealth, far above the proportion of it among their neighbours.

This is not a matter of long discussion. It is not by the importation of foreign commodities, and by the exportation of gold and silver, that a nation becomes poor; it is by consuming these commodities when imported. The moment the consumption begins, the balance turns; consequently, it is evidently against the principles which we now examine, either to sell at home, or destroy, confiscated goods. The only way of repairing the damage done by such frauds, is to export the merchandize, and, by selling it cheap in other countries, to hurt the trade of the country which first had furnished it. From this also we may conclude, that those nations which trade to India, by sending out gold and silver, for a return in superfluities of the most consumable nature, the consumption of which they prohibit at home, do not in effect spend their own specie, but that of their neighbours who purchase the returns of it for their own consumption. Consequently, a nation may become immensely rich by the constant exportation of her specie, and importation of all sorts of consumable commodities. But she would do well to beware of this trade, when her inhabitants have taken a luxurious turn, lest she should come to resemble the drunkard, who commenced wine-merchant, in order to make excellent cheer in wine with all his friends who came to see him; or the milliner, who took it into her head to wear the fine laces she used to make up for her
customers.

If a rich nation, where luxury is carried to the highest pitch, where a desire of gain serves as a spur to industry, where all the poor are at work, in order to turn the balance of domestic wealth in their favour; if such a nation, I say, be found to consume not only the whole work of the inhabitants, but part of that of other countries, it must have a balance of trade against it, equivalent to the amount of foreign consumption; and this must be paid for in specie, or in an annual interest, to the diminution of the former capital. Let this trade continue long enough, they will not only come at the end of their metals, but they may render themselves virtually tributary to other nations, by paying to them annually a part of the income of their lands, as the interest due upon the accumulated balances of many years' unfavourable trade.

Is it not, therefore, the duty of a statesman to prevent the consumption of foreign produce? If tapestry or other elegant furniture, such as is seen in a certain great capital in Europe, were allowed to be imported into a neighbouring nation; who doubts but this article would carry money out of that nation? It may be answered, that as much elegance of another kind may be sent in return. True; and it would be very lucky if this could be the case; but then you must suppose an equality of elegance in both countries; and farther, you must suppose a reciprocal taste for the respective species of elegance. Now the taste of one of the countries may be common to both; but not that of the other, though nothing inferior, perhaps, in the opinion of a third party. And the difference may proceed from this; that the young people of one country travel into the other, where the inhabitants stay at home: a circumstance which would prove very prejudicial to the country of the travellers, if a wise statesman did not, by seasonable prohibitions upon certain articles of foreign consumption, prevent the bad consequences of adopting a taste for what his subjects cannot produce.

This furnishes a hint, that it might not be a bad maxim in a great monarchy, to have houses built and furnished in the capital for every foreign minister, where the general distribution of the apartments of each might be, as much as possible, analogous to the taste of the country for whose minister it is calculated: but as to the furniture, to have it made of the most elegant domestic manufactures easily transportable, nicely adapted also to the uses and fashions of each foreign country. Such a regulation could never fail of being highly acceptable, as it would prove a great saving to foreign ministers, and would insensibly give them a taste for the manufactures and luxury of the country they reside in. On the other hand, I should be so far from expecting a return of this civility, that I would recommend the bestowing of a set of furniture, as a gratification to every minister sent abroad by the state, who should regularly sell it off in the place of his residence, upon the expiration of his commission. Such an expense would not cost one penny to the nation, and would be a means of captivating unwary strangers, who might be thereby made to pay dearly for such marks of politeness and civility. I return.

Without being expert in the computation of exports and imports, or very accurate in examining the different courses of exchange between the different cities of Europe, a statesman may lay it down as a maxim, that whatever foreign commodity, of whatsoever kind it be, is found to be consumed within the nation he governs, so far the balance of trade is against her; and that so far as any commodity produced either by the soil, or labour of
the inhabitants, is consumed by foreigners, so far the balance is for her.

A nation may in some measure be compared to a country gentleman, who lives upon his land. This I suppose to be his all. From it he draws directly his nourishment, perhaps his clothes are wrought up in his family. If he be so very frugal as never to go to market for anything, all the spare produce which he can sell will be clear money in his purse. If he indulge now and then in a bottle of wine, which his farm does not produce, he must go to market with his purse in his hand; and so soon as his bottle is out, I think he is effectually so much poorer than he was before. If he go on, and increase his consumption of such things as he is obliged to buy, he will run out the money he had in his purse, and be reduced to the simple production of his farm. If then this country gentleman be poorer, certainly somebody must be richer; and as it is nobody in his family it must be some of his neighbours.

Just so a nation which has no occasion to have recourse to foreign markets, in order to supply her own consumption, must certainly grow rich in proportion to her exportation. These riches again will not circulate at home, in proportion to the domestic consumption of natural produce and manufactures, but in proportion to the alienation of them for money: the surplus wealth will stagnate in one way or other, in the hands of the money gatherers, who are the small consumers.

While there is found a sufficient quantity of money for carrying on reciprocal alienations; those money gatherers will not be able to employ their stagnated wealth within the nation; but so soon as this gathering has had the effect of diminishing the specie, below the proportion found necessary to carry on the circulation, it will begin to be lent out, and so it will return to circulate for a time, until by the operation of the same causes it will fall back again into its former repositories.

Should it be here objected, that upon the augmentation of a nation's riches, no money can stagnate; because prices rising in proportion to the augmentation of riches, all the additional wealth must be thrown into circulation; surely both reason and experience must point out the weakness of such an objection.

While a favourable balance, therefore, is preserved upon foreign trade, a nation grows richer daily; and still prices remain regulated as before, by the complicated operations of demand and competition; and when one nation is growing richer, others must be growing poorer: this is an example of a favourable balance of trade.

When this superfluity of riches is profited of by the luxurious individuals only, instead of being turned to profit by the state itself, with a view to secure the advantages thereby acquired, then the balance takes a contrary turn: this is the case whenever foreign importations for consumption are either permitted as a gratification to the luxurious desires of the wealthy, or because of the rise in the price of goods at home, in consequence of domestic competition. If it be permitted purely in favour of the first, it marks a levity and want of attention unworthy of a statesman; if on account of the second, it shows either an ignorance of the real consequences of so temporary an expedient, or a disregard for the welfare of the lower classes of the people.

Every augmentation of prices at home, must be a necessary consequence of many domestic circumstances, and must be removed by correcting them, as has been, I think, made clear. But let it be supposed, that from the augmentation of wealth alone,
manufacturers can no more produce work so cheap as other nations; I think that both in humanity and prudence, a people should submit to the inconvenience of paying dearer. In humanity, because by the introduction of foreign manufactures, you starve those very people, who by their labour have enriched you; in prudence, because by opening your ports to such importation you deliberately throw away that superiority of riches you have been at so much pains to acquire.

I freely grant, that particular people do not regulate either their expence or their schemes of getting money, with a view to promote the public good. One who has a coat to buy, will be very glad to find a piece of foreign manufacture at a cheap rate; a merchant will wish to smuggle goods on which there is a high duty. But the question is, Whether a statesman is to wink at such abuses? I think it is much the same question, as if it were asked, whether the master of a family should, in good oeconomy, allow his servants to invite their friends to drink in his cellar, instead of carrying them to a public house.

But suppose it be said, that 'by laying trade open, you are sure that wealth will naturally come to a balance, in all countries, and that all fears of a wrong balance of trade are only the effect of a gloomy imagination'. See Hume's Political Discourses, Sect. v.

Several answers may be made to this objection. The first, that it is in order to prevent this kind of balance, that a nation ever gives itself disquiet: for by balance here, is understood an equality of wealth; and rich nations are they only who are anxious, lest they should be brought to such an equality. In the question here before us, it is the loss of this superiority of wealth which is understood by a balance turning against a trading nation. If, therefore, it be the interest of a nation, poor in respect of its neighbours, to have trade laid open, that wealth may, like a fluid, come to an equilibrium; I am sure it is the interest of a rich nation, to cut off the communications of hurtful trade, by such impediments as restrictions, duties, and prohibitions, upon importation; in order that, as by dykes, its wealth may be kept above the level of the surrounding element.

Another answer is, that laying trade open would not have the effect proposed; because it would destroy industry in some countries, at least, if not every where. A manufacture must be very solidly established indeed, not to suffer any prejudice, by a permission to import the like commodities from other countries. The very nature of luxury is such, that it frequently prompts people to consume, from caprice and novelty, what is really inferior to home-production. It may be answered, that this argument cuts two ways: for if a nation from caprice consume foreign commodities, why may not other nations from caprice likewise, take off those which are left on hand? This reasoning may appear good, in a theory which does not take in every political consideration. But a poor manufacturer who cannot find work, because the branch he works in is supplied from abroad, cannot live till the caprice of foreigners shall make them demand his labour. If a certain number of inhabitants be employed in a necessary branch of Consumption, there must be a certain demand preserved for it; and whatever can render this precarious, will ruin the undertaking, and those employed in it.

A third answer is, that any nation who would open its ports to all manner of foreign importation, without being assured of a reciprocal permission from all its neighbours, would, I think, very soon be ruined; and if this be true, it is a proof that a
balance of trade is a possible supposition, and that proper restrictions upon importation may turn to the advantage of a state.

In order to promote industry, a statesman must act, as well as permit and protect. Could ever the woollen manufacture have been introduced into France, from the consideration of the great advantage England had drawn from it, had not the king undertaken the support of it, by granting many privileges to the undertakers, and by laying strict prohibitions on all foreign cloths? Is there any other way of establishing a new manufacture any where?

Laying, therefore, trade quite open would have this effect; it would destroy, at first at least, all the luxurious arts; consequently, it would diminish consumption; consequently, diminish the quantity of circulating cash; consequently, it would promote hoarding; and consequently, would bring on poverty in all the states of Europe. Nothing, I imagine, but an universal monarchy, governed by the same laws, and administered according to one plan well concerted, can be compatible with an universally open trade. While there are different states, there must be separate interests; and when no one statesman is found at the head of these interests, there can be no such thing as a common good; and when there is no common good, every interest must be considered separately. But as this scheme of laying trade quite open, is not a thing likely to happen, we may save ourselves the trouble of inquiring more particularly into what might be its consequences; it is enough to observe, that they must, in their nature, be exceedingly complex, and if we have mentioned some of them, it has been to apply principles only, and shew how consequences may follow one another: to foretel what must follow is exceedingly difficult, if not impossible.

In discoursing of the balance of trade, I have hitherto considered it so far only as the specie of a country is augmented by it. In the subsequent books, where we shall have occasion to bring this subject once more upon the carpet, I shall shew how a balance may be extremely favourable without augmenting the mass of the precious metals; to wit, by providing subsistence for an additional number of inhabitants; by increasing the quantity of shipping, which is an article of wealth; by constituting all other nations debtors to it; by the importation of many durable commodities, which may be considered also as articles of wealth; as a well furnished house, a well stored cellar, an ample wardrobe, and a fine stable of horses, are articles which enhance the value of the inheritance of a landed man.

Then we shall have occasion to shew how industry heightens the permanent value of a nation, as agriculture increases its annual produce.

Chap. XXX

Miscellaneous Questions and Observations relative to Trade and Industry

In the former chapters, we have been treating of the nature and consequences of circulation, the effects of augmentations and diminutions of specie, and the doctrine of Mr Hume concerning the balance of trade. The perspicuity with which this author writes, renders his ideas easy to be conceived; and when people understand one another, most disputes are soon at an end.

In order, therefore, to throw a little more light upon the nature of the balance of trade between nations, let me examine
the following questions while we have the subject of the last chapter fresh in our memory.

Quest. 1. Can any judgment be formed concerning the state of the balance of trade of a nation, barely from the quantity of specie that is found in it?

I answer in the negative. A great proportion of all the specie of Europe, may be found in a country against which the balance of trade has stood regularly for many years. An inconsiderable proportion of it may be found in another, which has had it as regularly in its favour for the same time. Here follows the proof of this proposition.

The balance upon every article of trade may be favourable to a nation, which squanders away more than the returns of it, upon foreign wars. The balance of every article of trade may be against a country, which receives more than all the loss incurred, either from her mines, or from countries tributary to her, or who willingly furnish subsidies upon many political considerations.

Besides these varieties, there are still other circumstances to be combined, relative to the specie itself. The money found in a country, may either be said to belong absolutely to the country, when neither the state itself, or the particular people of it, are in debt to foreigners; or only so by virtue of a loan. Now, whether it is borrowed or not, the property of it belongs to the country; but the difference consists in this, that when it is borrowed, the acquisition of the metals adds nothing to the national patrimony, that is to say, there is no acquisition of wealth thereby made; but when it is gained by industry, the money adds to the real value of the country, in consequence of the principles laid down in the 26th chapter.

May not a nation, then, having very little gold and silver, open a subscription for millions, at so much per cent? Will not strangers lend to her, when her own subjects cannot? May she not yearly, by paying away the interest of the money borrowed, and by a heavy balance of trade against her, be constantly diminishing her specie, and yet by new contracts, keep up, and even increase the mass of the circulating value, to such a degree, as to be possessed of a greater proportion of specie than any of her neighbours? Farther.

Is it not certain, that all nations will endeavour to throw their ready money, not necessary for their own circulation, into that country where the interest of money is high with respect to their own, and where consequently the value of property in land is low; since they may either draw a high interest from it, or make the acquisition of solid property? Forbidding therefore the acquisition of solid property to strangers, is, in effect, a prohibition upon the gratuitous importation of specie. I allow there may be examples of people who make such purchases, with a view to draw the rents of the lands bought, out of the country; but whatever be the intention at the time of purchase, such however is the effect of an established fortune in a country, that, sooner or later, it draws the proprietor to it; and when this does not happen, a subsequent alienation commonly takes place.

Were the purchase, therefore, of lands permitted universally, and were it established, that property in land, to a certain value, should give a right to naturalization, I have little doubt but large sums would be brought into those countries, where lands are found to be the cheapest; and as no exportable commodity is given in return, the specie of such counties will mark the quantity of lands sold, as well as that of merchandize exported.
For want of a sufficient extension of these and many other combinations, which it would be easy to contrive, Mr Belloni, in his Dissertation upon Commerce, Chap. 1. Sect. 5. falls into several mistakes, when he judges of the exportation of commodities of a particular country, by the quantities of money found in it.

'It being the case (says he) that the plenty of coin, wherever it be found, points out the plenty of those goods of which it is the measure: Such persons, therefore, have justly been called rich, and such kingdoms wealthy, where there is found a great quantity of coin. On the other hand again, if we consider the state of a kingdom, and of the coin which is in it, supposing always the intrinsic value of the coin to be preserved (which is nothing else but the measure of the goods and of the price which is given for them), we must necessarily conclude, as every one must acknowledge, that in such countries where we find plenty of coin there must be a considerable trade in exporting goods for the use of strangers; and on the contrary, wherever coin is found to be scarce we may conclude that a great importation of foreign goods has taken place of the coin, which must have gone abroad for the payment of them.'

These consequences are just, only so far as money comes into a country or goes out of it, as the price of merchandize exported or imported. But how much money has not this author himself drawn into Rome from England, for the exportation of nothing but the bills of travellers?

On the other hand, may not a country, which is actually in possession of great quantities of gold and silver, call in these metals and circulate, in their place, a symbolical money; may not a nation then, as well as a private person, employ this specie in a profitable foreign trade, and gain daily by it? May she not, after some time, withdraw her stock, by calling in her debts? And may she not also call in her paper, and remain with an additional acquisition of specie in her pocket? Consequently, during the circulation of the paper, no judgment can be formed as to the balance of her trade, by examining the state of her specie; because I can suppose that at this time every shilling of it may be in the hands of strangers. Consequently, the richest nation in Europe may be the poorest in circulating specie.

'The writings of Mr Gee (says Mr Hume in his Political Discourse upon the Balance of Trade) struck the nation with an universal panic, when they saw it plainly demonstrated, by a detail of particulars, that the balance was against them for so considerable a sum as must leave them without a single shilling in five or six years. But, luckily, twenty years have since elapsed, along with an expensive foreign war; and yet 'tis commonly supposed that money is still more plentiful among us than in any former period.' I quote from the French translation.

Mr Gee was in the wrong to conclude, that the balance of trade would have the effect of carrying off the coin; and Mr Hume has been misled by this mistake, to conclude, that Mr Gee's calculations were false. I know nothing as to the matter of fact; nor whether Mr Gee was a good or a bad judge of the question he treated; but, from what has been said, I hope it appears, that the state of the coin in England, at the time Mr Hume wrote, was no proof on either side.

To judge of the balance of trade is one thing; to judge of the wealth of a nation as to specie is another. England may greatly increase her specie by her trade, and greatly diminish it by her wars: perhaps this may be the fact. She may also, at certain times, have a balance of trade against her; and great
sums laid out in foreign wars may be the means of making it return in her favour. Should this nation begin to pay off her debts to strangers, in ready coin, might she not soon diminish, perhaps exhaust, the specie she is now possessed of; yet surely none ever became poorer by paying off their debts. Nothing is so easy as to have specie, when one has solid property to pledge for it; and nothing can be worse judged, than to purchase specie from strangers, at the expense of paying an interest for it, when one can contrive a circulating value in paper-money, representing the solid value which must be pledged to strangers for the loan of their metals.

But still it may be asked, how it happens, that notwithstanding the most unfavourable balance of trade, no nation ever found herself entirely drained of her specie; and since we have proved, that the specie of a country may be diminished by a disadvantageous trade, what are the principles which prevent the total dissipation of it?

This is a very curious question, and opens a door to a multitude of new ideas, which will furnish abundant matter of speculation, when we come to treat more directly of credit. I shall here examine it in general, for the sake only of applying the principles we have laid down.

First, It may be said, that as common prudence prevents a private person from spending to his last shilling; so the like prudence commonly engages a people to put a stop to trade, before it has time totally to drain them. Although most people drink wine, there is no reason why every body should be drunk.

Secondly, Nothing is so complicated as the balance of trade, considered among many nations. The general wealth circulates from one to another, as the money which the farmer gives the landlord circulates back to the farmer. In the number of hands through which the money passes, some are of the class of the luxurious, some of the frugal; the first represents those nations who lose by the balance, the latter those who gain. But the most industrious nations of all, and those who, considered abstractedly from extraordinary accidents, appear in the way to swallow up the wealth of all the rest, are, by the means of such accidents, made liable to terrible restitutions. How many millions, for example, has England restored to the continent, in consequence of her wars and subsidies? She then lays a foundation for many more years of favourable balance, and accordingly we see it return to her, as the money which the state spends within the nation returns into the Exchequer at the end of the year.

Thirdly, It may be asked, how it happens that no nation has ever spent to its last farthing, as many an individual has done? I answer, that I am far from believing that this has never happened; nay, I believe there is nothing more frequent or familiar than this very case, provided the riches of a country be here supposed to mean no more than the specie absolutely belonging to herself, not borrowed from other nations.

I have said above, that the acquisition of money by industry increased the real value of a country, as much as the addition of a portion of territory; now what should hinder a people from spending their ready money, and preserving their land at the same time? Because a young gentleman, whose father has left him a fine estate in land, and ten thousand pounds in ready money, has spent the ten thousand pounds, does it follow, that he is not worth a shilling? Upon this view of the question, it will, I believe, be granted, that Dr Swift's idea that all the specie of Ireland would in a short time be exported, in consequence of an unfavourable balance of trade, is very far from being chimerical,
and may be exactly true; although at this time there be six times more coin in circulation than ever; just as a person who is running through his fortune, has commonly more money in his hands than his father used to have, when he was acquiring it. Let Ireland pay her debts to England, and then reckon her specie. Let England pay hers to all the world, and then weigh her gold and silver. Suppose that on summing up the accounts, there is not found one shilling in either country, is this any proof of their being undone? By no means: coin is one article of our wealth, but never can be the measure of it.

I know little of the state of Ireland; but if it be true, that paper money is increasing daily in that country, it is, I suppose, because the specie is daily exported to England, as the returns of estates belonging to people who reside there, and that the Irish, instead of buying it back again for their own use in circulation, augment their paper, in proportion to the progress of their industry; and buy such quantities only of specie as are necessary for paying the balance of their trade. Now by buying specie, I do not suppose, that they bring any over to Ireland, in order to send it back to England; but that they send over goods to the value, which the English merchants pay in specie, or in English paper, to those who are creditors upon Ireland, for the value of their rents, &c.

Suppose then, for a farther illustration of some principles, that all the lands of Ireland belonged to Englishmen residing in their own country, and annually drawing from Ireland the income belonging to them, what would the consequence be? I answer, that as long as this portion of the produce of lands, which goes for rent, (and which we have said to be the fund provided for the subsistence of the free hands who purchase their own necessaries,) can be bought and consumed by the Irish themselves, that is, in other words, while in Ireland there is a demand for this portion of the fruits, it will be paid for, either in coin, to the diminution of their specie, or in something which may be converted into money; that is, by the produce of their industry, and thus, by the means of trade, will come into the hands of the English proprietors, either in specie, or in any other form they judge proper.

That so soon as the demand for this portion of fruits comes to fail, for want of money, or industry, in Ireland, to purchase it, what remains on hand will be sent over to England in kind; or, by the way of trade, be made to circulate with other nations (in beef, butter, tallow, &c.) who will give silver and gold for it, to the proprietors of the Irish lands. By such a diminution of demand in the country, for the fruits of the earth, the depopulation of Ireland is implied; because they who consumed them formerly, consume them no more; that is to say, they are dead, or have left the country.

To conclude; a great part of the value of a country is its produce and manufactures; but it does not follow that these should as necessarily draw into a country a proportional sum of the gold and silver of Europe, as a shoal of small fishes draws water-fowl, or as charity draws the poor, or as beauty draws admiration.

Quest. 2. Can no rule be found to judge of the balance of trade from the state of specie, or at least to perceive the effects of this balance in augmenting or diminishing the mass of riches?

Could it be supposed that specie never circulated between nations, but in the way of trade, and in exchange for exportable commodities, the following rules might be laid down.
First, In nations where the earth produces neither gold or silver, and where these metals are imported as the returns of industry only, the balance in their favour, from the introduction of specie, to this day, would be measured by the quantity of it which they possess. Here Mr Belloni's opinion is just.

Secondly, The consumption made by any nation for the same term of years, is equal to the whole natural produce and labour of the inhabitants for that time, minus the quantity of such produce and labour, as is, or has been, equal in value to the actual national specie.

Thirdly, On the other hand, in nations where gold and silver are produced by the earth, the balance of trade against them, from the time these metals became the object of trade to this day, may be estimated by the quantity of them which has been exported.

Fourthly, and farther; the consumption made by such nations, for the same term of years, is equal to the whole natural produce and labour of the inhabitants for that time, plus the quantity of such produce and labour, as is, or has been, equal to the quantity of these metals exported.

These rules are by much too general to be laid down as principles; because trade is not concerned in every acquisition or alienation of specie; but they may serve, in the mean time, to illustrate the doctrine we have been considering, and even in many cases may be found pretty exact. For example:

If it be true, that in any nation of Europe, there be now just as much silver and gold as there was ten years ago, and if that nation, during this period, has supported, without borrowing from strangers, an expensive war which may have cost it, I suppose, five millions fairly exported in coin, it is certain that, during this period, the home-consumption must have been the value of five millions less than the natural produce, labour, and industry of the inhabitants; which sum of five millions must have come from abroad in coin, and in return for a like value of the production, labour, &c. remaining over and above their own consumption, and exported for this return in ready specie.

In this supposition, the national wealth (the metals) stands as before; the balance of it only is changed. How this change is performed, and what are its consequences, may be discovered by an application of the principles already laid down.

Quest. 3. What were the effects of riches before the introduction of trade and industry?

I never can sufficiently recommend to my readers to compare circumstances in the economy of the ancients, with these of modern politics; because I see a multitude of new doctrines laid down, which, I think, never would have been broached, had such circumstances been properly attended to. I have endeavoured to shew, that the price of goods, but especially of articles of the first necessity, have little or no connection with the quantities of specie in a country. The slightest inspection into the state of circulation, in different ages, will fortify our reasoning: but the general taste of dissipation, which is daily gaining ground, makes people now imagine, that wealth and circulation are synonymous terms; whereas nothing is more contrary both to reason and matter of fact. A slight review of this matter, in different ages, will set it in a clearer light than a more abstract reasoning can do.

It is a question with me, whether the mines of Potosi and Brazil, have produced more riches to Spain and Portugal, within these two hundred years, than the treasures heaped up in Asia, Greece, and Egypt, after the death of Alexander, furnished to the
Romans, during the two hundred years which followed the defeat of Perseus, and the conquest of Macedonia.

From the treasures mentioned by all the historians who have written of the conquest of these kingdoms by the Romans, I do not think I am far from truth, when I compare the treasures of the frugal Greeks to the mines of the new world.

What effect, as to circulation, had the accumulation of these vast treasures? Not any to accelerate it, surely: and no person, the least conversant in antiquity, will pretend that the circulating specie in those times bore as great a proportion to their treasures, as what is at present circulating among us bears to the wealth of the most oeconomising Prince in Europe. If any one doubt of this particular, let him listen to Appian, who will inform him, that the successors of Alexander, the possessors of these immense riches, lived with the greatest frugality. These treasures were then, as I have said, a real addition to the value of their kingdoms but had not the smallest influence upon prices. In those days of small circulation, the prices of every thing must have been vastly low, not from the great abundance of them, but because of the little demand; and as a proof of this, I cite the example of a country, which, within the space of fifty years, possessed in specie, at one time, considerably beyond the worth of the land, houses, slaves, merchandize, natural produce, moveables, and ready money, at another. The example is mentioned by Mr Hume; and I am surprized the consequence of it did not strike him. For if the money they possessed was greatly above the worth of all their property, moveable and immoveable, surely it never could be considered as a representation of their industry, which made so small a part of the whole. Athens possessed, before the Peloponnesian war, a treasure of ten thousand talents; and fifty years afterwards, all Athens, in the several articles above specified, did not amount to the value of six thousand. Hume’s Political Discourses upon the Balance of Trade.

These treasures were spent in the war, and they had been laid up for no other purpose. Therefore I was in the right, when I observed above, Chap. 22., that war in ancient times had the effect that industry has now: it was the only means of making wealth circulate. But, peace producing a general stagnation of circulation, people returned to the ancient simplicity of their manner, and the prices of subsistence remained on the former footing; because there was no increase of appetite, or rising of demand upon any necessary article. So much for the state of wealth during the days of frugality.

The Romans subdued all those kingdom of the Greeks, and drew their treasures to Rome. The republic went to destruction, and a succession of the most prodigal princes ever known in history succeeded one another for about two hundred years. Those monstrous treasures were then thrown into circulation: and I must now give an idea of the effects produced by such a revolution.

I have already observed (Chap. 28.), that in consequence of the great prodigality of those times, the price of superfluities rose to a monstrous height; while the price of necessaries kept excessively low. The fact is indisputable; and any one who inclines to satisfy himself farther, may look into that valuable collection of examples of ancient luxury, wealth, and, at the same time, of simplicity, found in Dr Wallace’s Dissertation upon the Numbers of Mankind in ancient and modern Times, p. 132. et seq.

But how is it to be accounted for, that the price of superfluities should stand so high, while the price of necessaries was so low? The reason is plain, from the principles
we have laid down. The circulation of money had no resemblance to that of modern times: fortunes were made by corruption, fraud, concussion, rapine, and penury; not by trade and industry. Seneca amassed in four years 2,400,000 pounds sterling. An augur was found to be worth 3 millions sterling. M. Antony owed on the ides of March, 322,916 pounds sterling, and paid it before the calends of April. We know of no such circulation. Every revolution was violent: the powerful were rapacious and prodigal, the weak were poor and lived in the greatest simplicity: consequently, the objects of the desires for the rich were immensely dear; and the necessaries for the poor were excessively cheap. This is a confirmation of the principles we have laid down in Chap. 28., that the price of subsistence must ever be in proportion to the faculties of the numerous classes of those who buy: that the price of every thing must be in proportion to the demand for it; and that in every case, where the supply can naturally be increased in proportion to the demand, there must be a determinate proportion between the price of such articles and that of subsistence. Now in the examples given by Dr Wallace, of things which sold at monstrous prices, we find such only as could not be increased according to demand: here is the enumeration of them. Large asses brought from Spain, peacocks, fine doves, mullets, lampreys, peaches, large asparagus, purple, wool, jewels, carpets, vestes Byssinae, slaves skilled in the finer arts, pictures, statues, books, and rewards to those who taught the sciences. By casting a glance upon the catalogue, we may easily perceive that the extraordinary price must have proceeded from the impossibility of augmenting the supply in proportion to the demand; not from the abundance of the money, which had no effect in raising the price of necessaries. The cheapness, again, of these did not proceed from the vast plenty of them; but because the price remained in proportion to the faculties of the numerous poor; and because the augmentation of the wealth of the rich never could increase their consumption of any necessary article. Had the Roman empire been governed with order and tranquillity, this taste of luxury, by precipitating money into the hands of the numerous classes, would, in time, have wrought the effects of multiplying the number of the industrious; consequently, of increasing the demand for vendible subsistence; consequently, of raising the price of it. And, on the other hand, the introduction of a more adequate proportion between services and rewards given by the public, would have checked the other branch of circulation which produced those monstrous fortunes, to wit, rapine and corruption: and, industry receiving a regular encouragement, every article of extraordinary demand for delicate aliments, birds, fishes, fruits, &c. would have been supplied with sufficient abundance; and consequently, would have fallen in its price. But while either despotism or slavery were the patrimonial inheritance of every one on coming into the world, we are not to expect to see the same principles operate, as in ages where the monarch and the peasant are born equally free to enjoy the provision made for them by their forefathers.

Quest. 7. In what manner, therefore, may a statesman establish industry, so as not to destroy simplicity, nor occasion a sudden revolution in the manners of his people, the great classes of which are supposed to live secure in ease and happiness; and, at the same time, so as to provide with necessaries every one who may be in want? The observations we are going to make will point out the answer to this question: they will still farther unfold the
political economy of the ancients, and explain how manners
remained so pure from vicious luxury, notwithstanding the great
and sumptuous works carried on, which strike us with so lofty an
idea of their useful magnificence and noble simplicity. These
observations will also confirm the justness of a distinction
made, in the first chapter of this book, between labour and
industry; by shewing that labour may ever be procured, even by
force, at the expence of furnishing man with his
physical-necessary, from which no superfluity can proceed:
whereas industry cannot be established, but by means of an
adequate equivalent, proportioned, not to the absolutely
necessary, but to the reasonable desire of the industrious; which
equivalent becomes afterwards the means of diffusing a luxurious
disposition among all the classes of a people.

If a statesman find certain individuals in want, he must
either feed them, in which case he may employ them as he thinks
fit; or he must give them a piece of land, as the means of
feeding themselves. If he give the land, he can require no
equivalent for it, because a person who has nothing can give
nothing but his labour; and if he be obliged to labour for his
food, he cannot purchase with labour the earth itself, which
produces it. If it be asked, whether a statesman does better to
give the food, or to give the land? I think it will appear very
evident, that the first is the better course, because he can then
exact an equivalent; and since in either way the person is fed,
the produce of his labour is always clear gain. But in order to
give the food, he must have it to give; in which case it must
either be a surplus-produce of public lands, or a contribution
from the people. In both which cases, is implied an industry
carried on beyond the personal wants of those who labour the
ground. If this fund be applied in giving bread to those whom he
employed in improving the soil of the country in general, it will
have no immediate effect in destroying the simplicity of their
manners; it will extend the fund only of their subsistence. If he
employs them in making highways, aqueducts, common sewers,
bridges, and the like; it will extend the correspondence between
the different places of the country, and render living in cities
more easy and agreeable: and these changes have an evident
tendency towards destroying simplicity. But here let it be
remarked, that the simplicity of individuals is not hurt by the
industry carried on at the expence of the public. The superfluous
food at the statesman's disposal, is given to people in
necessity, who are employed in relieving the wants of the public,
not of private persons. But if, for example, in consequence of
the roads made, any inhabitant shall incline to remove from place
to place in a chariot, instead of riding on horseback, or
walking, he must engage somebody to make the machine: this is a
farther extension to occupation, on the side of those who labour.
but the consequence of the employment is very different, when
considered with regard to the simplicity of manners. The reason
is plain: the ingenuity here must be paid for; and this
superfluity in the hands of the workman is a fund for his
becoming luxurious.

Industry destroys simplicity of manners in him who gives an
equivalent for an article of superfluity; and the equivalent
given frequently gives rise to a subordinate species of luxury in
the workman. When industry therefore meets with encouragement
from individuals, who given an equivalent in order to satisfy
growing desires, it is a proof that they are quitting the
simplicity of their manners. In this case, the wants and desires
of mankind are the sources of industry, which was the supposition
in the first book; because, in fact, the industry of Europe is 
owing to this cause alone.

But the industry of ancient times was very different, when 
the multitude of slaves ready to execute whatever was demanded, 
either by the state or by their masters, for the equivalent of 
simple maintenance only, prevented wealth from ever falling into 
the hands of industrious free men; and he who has no circulating 
equivalent to give for satisfying a desire for superfluity, must 
remain in his former simplicity. The labour therefore of those 
days producing no circulation, could not corrupt the manners of 
the people; because, remaining constantly poor, they never could 
increase their consumption of superfluity.

I must, in this place, insert the authority of an ancient 
author, in order both to illustrate and to prove the justness of 
this representation of the political oeconomy of the ancients. 

There remains a discourse of Xenophon upon the improvement of 
the revenue of the state of Athens. Concerning the authenticity 
of this work, I have not the smallest doubt. It is a chef 
d'oeuvre of its kind, and from it more light is to be had, in 
relation to the subject we are here upon, than from any thing I 
have ever seen, ancient or modern.

From this ancient monument we learn the sentiments of the 
author with regard to the proper employment of the three 
principal classes of the Athenian people, viz. the citizens, the 
strangers, and the slaves. From the plan he lays down we plainly 
discover, that, in the state of Athens, (more renowned than any 
other of antiquity for the arts of luxury and refinement,) it 
never entered into the imagination of any politician to introduce 
industry even among the lowest classes of the citizens; and 
Xenophon's plan was to reap all the benefits we at present enjoy 
from it, without producing any change upon the spirit of the 
Athenian people.

The state at this time used to impose taxes upon their 
confederate cities, in order to maintain their own common people, 
and Xenophon's intention in this discourse was to lay down a plan 
for improving the revenue of the state in such a manner as out of 
it to give every citizen a pension of three oboli a day, or three 
pence three farthings of our money.

I shall not here go through every branch of his plan, nor 
point out the resources he had fallen upon to form a sufficient 
fund for this purpose; but he says, that in case of any 
deficiency in the domestic revenue of the state, people from all 
quarters, Princes and strangers of note, in all countries, would 
be proud of contributing towards it, for the honour of being 
recorded in the public monuments of Athens, and having their 
names transmitted to posterity as benefactors to the state in the 
execution of so grand a design.

In our days, such an idea would appear ridiculous; in the 
days of Xenophon, it was perfectly rational. At that time great 
quantities of gold and silver were found locked up in the coffers 
of the rich: this was in a great measure useless to them, in the 
common course of life, and was the more easily parted with from a 
sentiment of vanity or ostentation.

In our days, the largest income is commonly found too small 
for the current expence of the proprietor. From whence it 
happens, that presents, great expence at funerals and marriages, 
godfathers' gifts, &c. so very familiar among ourselves in former 
times, are daily going out of fashion. These are extraordinary 
and unforeseen expences which our ancestors were fond of; because 
they Battered their vanity, without diminishing the fund of their 
current expence: but as now we have no full coffers to fly to, we
find them excessively burthensome, and endeavour to retrench them
as soon as we can, not from frugality, God knows, but in
consequence of a change in our manners.

Besides providing this daily pension of three pence three
farthings a day for every citizen of Athens, rich and poor, he
proposed to build, at the public charge, many trading vessels, a
great many inns and houses of entertainment for all strangers in
the sea-ports, to erect shops, warehouses, exchanges, &c. the
rents of which would increase the revenue, and add great beauty
and magnificence to the city. In short, Xenophon recommends to
the state to perform, by the hands of their slaves and strangers,
what a free people in our days are constantly employed in doing
in every country and industry. While the Athenian citizens
continued to receive their daily pensions, proportioned to the
value of their pure physical-necessary, their business being
confined to their service in the army in time of war, their
attendance in public assemblies, and the theatres in times of
peace, clothed like a parcel of capucins, they, as became
freemen, were taught to despise industrious labour, and to glory
in the austerity and simplicity of their manners. The pomp and
magnificence of the Persian Emperors were a subject of ridicule
in Greece, and a proof of their barbarity, and of the slavery of
their subjects. From this plain representation of Xenophon's
plan, I hope, the characteristic difference between the ancient
and modern economy is manifest; and for such readers as take a
particular delight in comparing the systems of simplicity and
luxury, I recommend the perusal of this most valuable discourse.

To put this matter past all dispute, and to prove that the
simplicity of the manners, as well as the idleness of the common
people of Athens in Xenophon's time, proceeded from refinement
not from ignorance, I shall here insert a passage from President
Goguet's Origin of Laws, Arts, and Sciences, with the authorities
he cites in part 3d, book 4th, chap. 3d.

'Hesiod and Plutarch have observed,' says he, 'that, in the
ages I am now speaking of (before the reign of Cyrus) commerce
was held in great honour among the Greeks. No labour, say these
authors, was accounted shameful, no art, no trade, placed any
difference among men. This maxim, so reasonable and so useful to
such a nation as the Greeks, was, nevertheless, altered. We see
by the works of Xenophon, of Plato, of Aristotle, and of many
other writers of merit, that, in their age, all professions which
were calculated to gain money, were regarded as unworthy of a
freeman. Aristotle maintains, that, in a well ordered state, they
will never give the right of citizens to artisans. Plato would
have a citizen punished who should enter into commerce. In fine,
we see these two philosophers, whose sentiments, on the
principles and maxims of government, are otherwise so opposite,
agreeing to recommend that the lands should be cultivated by
slaves: only. It is very surprising,' concludes the President,
'that with such principles, which all the Greeks appear to have
imbibed, they should ever have been so intelligent in commerce,
and so powerful at sea, as they are known to have been in some
ages.'

Putting, therefore, all these circumstances together, and
comparing them with the contrast, which is found, as to every
particular, in our times, I think it is but doing justice to the
moderns, to allow, that the extensive luxury, which daily
diffuses itself through every class of a people, is more owing to
the abolishing of slavery, the equal distribution of riches, and
the circulation of an adequate equivalent for every service, than
to any greater corruption of our manners, than what prevailed
among the ancients.

In order to have industry directed towards the object of public utility, the public, not individuals, must have the equivalent to give. Must not the employment be adapted to the taste of him who purchases it? Now, in ancient times, most public works were performed either by slaves, or at the price of the pure physical-necessary of free men. We find the price of a pyramid, recorded to us by Herodotus, in the quantity of turnips, onions, and garlic, consumed by the builders of it. Those who made the via appia, I apprehend, were just as poor when it was finished as the day it was begun; and this must always be the case, when the work requires no peculiar dexterity in the workmen. If, on the other hand, examples can be brought where workmen gained high wages, then the consequences must have been the same as in our days.

As long, therefore, as industry is not directed to such objects as require a particular address, which, by the principles laid down in the twenty-first chapter, raises profits above the physical-necessary, the industrious never can become rich; and if they be paid in money, this money must return into the hands of those who feed them: and if no superfluity be found anywhere but in the hands of the state, such industry may be the means of consuming a surplus of subsistence, but never can draw one penny into circulation. This I apprehend to be a just application of our principles, to the state of industry under the Roman republic: and it is this species of industry which we call labour. We are not therefore to ascribe the taste for simplicity in those days to the virtue of the times. A man who had riches, and who spent them, spent them no doubt then, as at present, to gratify his desires; and if the simplicity of the times furnished no assistance to his own invention, in diversifying them, the consequence was, that the money was not spent, but locked up. I have heard many a man say, had I so much money I should not know how to spend it. The thing is certainly true; for people do not commonly take it into their head to lay it out for the public.

Nobody, I believe, will deny that money is better employed in building a house, or in producing something useful and permanent, than in providing articles of mere transitory superfluity. But what principle of politics can influence the taste of the proprietors of wealth? This being the case, a statesman is brought to a dilemma; either to allow industry to run into a channel little beneficial to the state, little permanent in its nature, or to deprive the poor of the advantage resulting from it. May I not farther suggest, that a statesman, who is at the head of a people, whose taste is directed towards a trifling species of expense, does very well to diminish the fund of their prodigality, by calling in, by the means of taxes, a part of the circulating equivalent which they give for it? When once he is enriched by these contributions, he comes to be in the same situation with ancient statesmen, with this difference, that they had their slaves at their command, whom they fed and provided for; and that he has the free, for the sake of an equivalent with which they feed and provide for themselves. He then can set public works on foot, and by his example, inspire a taste for industry of a more rational kind, which may advance the public good and procure a lasting benefit to the nation.

I have frequently said, that the acquisition of money, by the sale of industry to strangers, or in return for consumable commodities, was a way of augmenting the general worth of a nation. Now I say, that whoever can transform the most consumable commodities of a country into the most durable and most
beneficial works, makes a high improvement. If therefore meat and drink, which are of all things the most consumable, can be turned into harbours, high roads, canals, and public buildings, is not the improvement inexpressible? This is in the power of every statesman to accomplish, who has subsistence at his disposal; and beyond the power of all those who have it not. There is no absolute occasion for money to improve a country. All the magnificent buildings which ornament Italy, are more properly the representation of a scanty subsistence, than of the gold and silver in that country at the time they were executed. Let me now conclude with a few miscellaneous observations on what has been said.

Obser. 1. When I admire the magnificence and grandeur of public works in any country, such as stupendous churches, amphitheatres, roads, dykes, canals; in a word, when I examine Holland, the greatest work perhaps ever done by man, I am never struck with the expence. I compare them with the numbers of men only who have lived to perform them. When I see another country well inhabited, where no such works appear, the contrast suggests abundance of reflections.

As to the first, I conclude, that while these works were carrying on, either slavery or taxes must have been established; because it seldom happens, that a prince will, out of his own patrimony, launch out into such expences, purely to serve the public. Public works are carried on by the public; and for this purpose, either the persons or purses of individuals, must be at its command. The first I call slavery; that is service: the second taxes; that is public contributions in money or in necessaries.

Obser. 2. I farther conclude, that nothing is to be gathered from those works, which should engage us to entertain a high opinion of the wealth, or other species of magnificence in the people who executed them. All that can be determined positively concerning their economy as to this particular, is, that at the time they were performed, agriculture must have been exercised as a trade, in order to furnish a surplus sufficient to maintain the workmen; or that subsistence must have come from abroad, either as a return for other species of industry, or gratuitously, that is, by rapine, tribute, &c.

Obser. 3. That the consequence of such works, is, to make meat, drink, and necessaries circulate from the hands of those who have a superfluity of them, into those who are employed to labour; or to oblige those who formerly worked for themselves only, to work also in part for others. To execute this, there must be a subordination: for who will increase his labour, voluntarily, in order to feed people who do not work for himself, but for the public? This combination was neglected throughout the first book; because we there left mankind at liberty to follow the bent of their inclinations. This was necessary to give a right idea of the subject we then intended to treat, and to point out the different effects of slavery and liberty; but now, that we have formed trading nations, and riveted a multitude of reciprocal dependences, which tie the members of them together, there is less danger in introducing restraints; because the advantages which people find, from living in a well ordered society, make them put up the better with the inconveniences of supporting and improving it. It is an universal principle, that instruction should be given with gentleness. A young horse is to be carressed when the saddle is first put upon his back: any thing that appears harsh, let it be ever so useful or necessary, must be forborn in the beginning, in order to captivate the
inclination of the creature which we incline to instruct.

Obser. 4. When a statesman knows the extent and quality of the territory of his country, so as to be able to estimate what numbers it may feed; he may lay down his plan of political economy, and chalk out a distribution of inhabitants, as if the number were already compleat. It will depend upon his judgment alone, and upon the combination of circumstances, foreign and domestic, to distribute, and to employ the classes, at every period during this execution, in the best manner to advance agriculture, so as to bring all the lands to a thorough cultivation. A ruling principle here, is, to keep the husbandman closely employed, that their surplus may be carried as high as possible; because this surplus is the main spring of all alienation and industry. The next thing is to make this surplus circulate; no man must eat of it for nothing. What a prodigious difference does a person find, when he considers two countries, equally great, equally fertile, equally cultivated, equally peopled, the one under the economy here represented; the other, where every one is employed in feeding and providing for himself only.

A statesman, therefore, under such circumstances, should reason thus: I have a country which maintains a million of inhabitants, I suppose, and which is capable of maintaining as many more; I find every one employed in providing for himself, and considering the simplicity of their manners, a far less number will be sufficient to do all the work: the consequence is, that many are almost idle, while others, who have many children, are starving. Let me call my people together, and shew them the inconvenience of having no roads. He then proposes that every one who chooses to apply to this work, shall be fed and taken care of by the community, and his lands distributed to those who incline to take them. The advantage is felt, the people are engaged to work a little harder, so as to undertake the cultivation of the portions of those who have abandoned them. Upon this revolution, labour is increased, the soil continues cultivated as before, and the additional labour of the farmers appears in a fine high road. Is this any more than a method to engage one part of a people to labour, in order to maintain another?

Obser. 5. Here I ask, whether it be not better to feed a man, in order to make him labour and be useful, than to feed him in order to make him live and digest his victuals? This last was the case of multitudes during the ages of ancient slavery, as well as the consequence of ill-directed modern charity. One and the other being equally well calculated for producing a simplicity of manners: and Horace has painted it to the life, when he says,

Nos numerus sumus, et fruges consumere nati.

This I have heard humorously translated, though nastily I confess; We add to the number of t-d mills. A very just representation of many of the human species! to their shame be it spoken, as it equally casts a reflection on religion and on government.

Consistently with these principles, we find no great or public work carried on in countries of great liberty. Nothing of this kind is to be seen among the Tartars or hunting Indians. These I call free nations, but not our European republics, where I have found just as much subordination and constraint as any where else.

I have on several occasions, let drop some expressions with regard to charity, which I am sensible may be misinterpreted. It
will therefore be proper to make some apology, which nobody can suspect of insincerity; because my reason for introducing it, is with a view to a farther illustration of my subject.

When I see a rich and magnificent monastery of begging friars, adorned with profusion of sculpture, a stupendous pile of building, stately towers, incrustations of marble, beautiful pavements; when I compare the execution and the expence of all these, with the faculties of a person of the largest fortune, I find there is no proportion between what the beggars have executed with the produce of private charities, and what any Lord has done with his overgrown estate. Nay monasteries there are which, had they been executed by princes, would have been cited by historians, from generation to generation, as eternal monuments of the greatest prodigality and dissipation. Here then is an effect of charity, which I have heard condemned by many, and I think without much reason. What prostitution of riches! say they: how usefully might all this money have been employed, in establishing manufactures, building a navy, and in many other good purposes? Whereas I am so entirely taken up with the effects arising from the execution of the work, that I seldom give myself time to reflect upon the use of it. The building of this monastery has fed the industrious poor, has encouraged the liberal arts, has improved the taste of the inhabitants, has opened the door to the curiosity of strangers: and when I examine my purse, I find that instead of having contributed to the building of it from a charitable disposition, my curiosity to see it has obliged me to contribute my proportion of the expence. I spend my money in that country, and so do other strangers, without bringing any thing away for it. No balance of trade is clearer than this. The miraculous tongue of St. Anthony of Padua, has brought more clear money into that city than the industry of a thousand weavers could have done: the charity given is not to the monks, but to the poor whom they employ. If young wits, therefore, make a jest of such a devotion; I ask, who ought to be laughed at, those who give, or those who receive money for the show?

In a country where such works are usually carried on, they cease in a great measure to be useful, whenever they are finished; and a new one should be set on foot directly, or what will become of those who are without employment? It must not be concluded from this, that the usefulness of public works is not a principal consideration. The more a work is useful after it is done, so much the better; because it may then have the effect of giving bread to those who have not built it. But whether useful or not afterwards, it must be useful while it is going on; and many, who with pleasure will give a thousand pounds to adorn a church, would not give a shilling to build Westminster bridge, or the port of Rochefort; and the poor live equally by the execution of either. Expensive public works, are therefore a mean of giving bread to the poor, and of advancing industry, without hurting the simplicity of manners; which is an answer to the seventh question.

Obser. 6. Great works found in one country and none found in another, is no proof that the first have surpassed the second in labour and industry: the contrast marks only the different division of property, or taste of expence. Every undertaking points out a particular interest. Palaces are a representation of rich individuals; snug boxes, in the neighbourhood of cities, represent small but easy fortunes; huts point out poverty; aqueducts, highways, &c. testify an opulent common good: and if these be found in a country where no vestige of private expence
appears, I then must conclude that they have been executed by
slaves, or by oppression; otherwise somebody, at least, would
have gained by the execution; and his gains would appear in one
species of expence or another.

Obser. 7. In countries where fortunes have been unequally
divided, where there have been few rich and many poor, it is
common to find lasting monuments of labour: because great
fortunes only are capable of producing them. As a proof of this
let us compare the castles of ancient times (I mean four or five
hundred years ago) with the houses built of late. At that time
fortunes were much more unequal than at present, and accordingly
we find the habitations of the great in most countries not
numerous, but of an extraordinary bulk and solidity. Now a
building is never to be judged of by the money it cost, but by
the labour it required. From the houses in a country, I judge of
the opulence of the great, and of the proportion of fortunes
among the inhabitants. The taste in which these old castles are
built, marks the power of those who built them, and, as their
numbers are small, we may judge from the nature of man, who loves
imitation, that the only reason for it was, that there were few
in a condition to build them. Why do we find in modern times a
far less disproportion between the convenience with which every
body is lodged, than formerly; but merely because riches from the
operations of industry above-described are more equally divided.

Obser. 8. From this we may conclude, that lasting monuments
are no adequate measure of the industry of a country. The expence
of a modern prince, in a splendid court, numerous armies,
frequent journeys, magnificent banquets, operas, masquerades,
tournaments, and shews, may give employment and bread to as many
hands, as the taste of him who built the pyramid; and the smoke
of the gun-powder at the reviews, and of the flambeaus and wax
lights at the entertainments, may be of as great use to
posterity, as the shadow of the pyramid, which is the only
visible effect produced by it; but the one remains for ever, the
other leaves no vestige behind it. The very remaining of the
work, however useless in itself, becomes advantageous, so far as
it is ornamental, and inspires sentiments of emulation to
succeeding princes, the effects of which will still be productive
of the good consequences of keeping people employed. The expence
of the other flatters the senses, and gives delight: there is no
choice here. All such useless expence gratifies vanity only;
accident alone makes one species permanent, another transitory.

Those who have money may be engaged to part with it in favour
of the poor, but never forced to part with it to the prejudice of
their posterity. Inspire, if you can, a good and useful taste of
expence; nothing so right; but never check the dissipation of
ready money, with a view to preserve private fortunes. Leave such
precautions to the prudence of every individual. Every man, no
doubt, has as good a right to perpetuate and provide for his own
posterity, as a state has to perpetuate the welfare of the whole
community; it is the combination of every private interest which
forms the common weal. From this I conclude, that, without the
strongest reasons to the contrary, perpetual substitutions of
property should be left as free to those who possess lands, as
locking up in chests should be permitted to those who have much
money.

Quest. 8. What are the principles which influence the
establishment of mercantile companies; and what effects do these
produce upon the interests of trade?

There is a close connection between the principles relating
to companies and those we have examined in the twenty-third
chapter, concerning corporations. The one and the other have
excellent consequences, and both are equally liable to abuse. A
right examination of principles is the best method to advance the
first, and to prevent the latter.

The advantages of companies are chiefly two.
1. That by uniting the stocks of several merchants together,
an enterprise far beyond the force of any one, becomes
practicable to the community.
2. That by uniting the interests of several merchants, who
direct their foreign commerce towards the same object, the
competition between them abroad is taken away; and whatever is
thus gained, is so much clear profit, not only to the company,
but to the society of which they are members.

It is in consideration of the last circumstance, that
companies for foreign commerce have a claim to extensive
privileges. But no encouragement given to such associations
should be carried farther than the public good necessarily
requires it should be. The public may reward the ingenuity,
industry and inventions of particular members, and support a
private undertaking as far as is reasonable; but every
encouragement given ought to be at the expence of the whole
community, not at that of particular denominations of
inhabitants.

The disadvantages proceeding from companies are easily to be
guessed at, from the very nature of the advantages we have been
setting forth: and the relation between the one and the other
will point out the remedies.

First, the weight of money in the hands of companies, and the
public encouragement given them, crush the efforts of private
adventurers, while their success inspires emulation, and a desire
in every individual to carry on a trade equally profitable.

Here a statesman ought nicely to examine the advantages which
the company reaps from the incorporation of their stock, and
those which proceed from the public encouragement given to the
undertaking; that with an impartial hand, he may make an equal
distribution of public benefits. And when he finds it impossible
to contribute to the advancement of the public good, by
communicating the privileges of companies to private adventurers,
he ought to facilitate the admittance of every person properly
qualified into such associations.

Secondly, The second disadvantage of companies, is, a
concomitant of that benefit so sensibly felt by the state, from
the union of their interest, while they purchase in foreign
markets: the same union which, at the time of buying, secures the
company from all competitions, proves equally disadvantageous to
those who purchase from them at home. They are masters of their
price, and can regulate their profits by the height of demand;
whereas they ought to keep them constantly proportioned to the
real value of the merchandize.

The advantage resulting from the union of many private stocks
is common to all companies; but those we have mentioned to
proceed from the union of their interest, is peculiar to those
who carry on an exclusive trade in certain distant parts of the
world. We have, in a former chapter, laid down the maxims which
influence the conduct of a statesman in regulating the prices of
merchandize, by watching over the balance of work and demand, and
by preserving the principles of competition in their full
activity. But here a case presents itself, where, upon one side
of the contract, competition can have no effect, and where its
introduction is forbidden for the sake of the public good,
because it destroys the exclusive privilege of the company to
trade in certain countries.

What method, therefore, can be fallen upon to preserve the advantage which the nation reaps from the company's buying in foreign parts without being exposed to competition; and at the same time to prevent the disadvantage to which the individuals of the society are exposed at home, when they endeavour, in competition with one another, to purchase from a company, who, in virtue of the same exclusive privilege, are united in their interest, and become masters to demand what price they think fit?

It may be answered, that it cannot be said of companies as of private dealers, that they profit of every little circumstance of competition, to raise their price. Companies have a fixed standard, and all the world buys from them at the same rate; so that retailers, who supply the consumption, have in one respect this notable advantage, that as all buy from them at the same price, no one can undersell another; and the competition between themselves secures the public from exorbitant prices.

I agree that these advantages are felt, and that they are real; but still they prove no more than that the establishment of companies is not so hurtful to the interest of those who consume their goods, as it would be could they profit to the utmost of their exclusive privilege in selling by retail. But it does not follow from this, that the profits upon such a trade do not rise (in consequence of their privilege) above the standard proper for making the whole commerce of a nation flourish. The very jealousy and dissatisfaction, conceived by other merchants, equally industrious and equally well deserving of the public, because of the great advantages enjoyed by those who are incorporated, under the protection of exclusive privileges, is a hurt to trade in general, is contrary to that principle of impartiality which should animate a good statesman, and should be prevented if possible. Let us therefore go to the bottom of this affair; and, by tracing the progress of such mercantile undertakings, as are proper objects for the foundation of companies, and which entitle them to demand and to obtain certain exclusive privileges, let us endeavour to find out a method by which a statesman may establish such societies, so as to have it in his power to lay their inland sales under certain regulations, capable to supply the want of competition; and to prevent the profits of exclusive trade from rising, considerably, above the level of that which is carried on without any such assistance from the public.

While the interest of companies is in few hands, the union of the members is more intimate, and their affairs are carried on with more secrecy. This is always the case in the infancy of such undertakings. But the want of experience frequently occasions considerable losses; and while this continues to be the case, no complaints are heard against such associations. Few pretend to rival their undertaking, and it becomes at first more commonly the object of raillery than of jealousy. During this period, the statesman should lay the foundation of his authority; he ought to spare no pains nor encouragement to support the undertaking; he ought to inquire into the capacity of those at the head of it; order their projects to be laid before him; and when he finds them reasonable, and well planned, he ought to take unforeseen losses upon himself: he is working for the public, not for the company; and the more care and expence he is at in setting the undertaking on foot, the more he has a right to direct the prosecution of it towards the general good. This kind of assistance given, entitles him to the inspection of their books; and from this, more than any thing, he will come at the exact knowledge of every circumstance relating to their trade. By this
method of proceeding, there will be no complaints on the side of
the adventurers, they will engage with cheerfulness, being made
certain of the public assistance in every reasonable undertaking;
their stock becomes in a manner insured, individuals are
encouraged to give them credit, and from creditors they will
naturally become associates in the undertaking. So soon as the
project comes to such a bearing as to draw jealousy, the bottom
may be enlarged by opening the doors to new associates, instead
of permitting the original proprieters to augment, and thus the
fund of the company their stock with borrowed money; may be
increased in proportion to the employment found for it, and every
one will be satisfied.

When things are conducted in this way, the authority of
public inspection is no curb upon the trade; the individuals who
serve the company are cut off from the possibility of defrauding;
no mysteries, no secrets, from which abuses arise, will be
encouraged; trade will become honourable and secure, not
fraudulent and precarious; because it will grow under the
inspection of its protector, who protects it for the public good
only.

Why do companies demand exclusive privileges, and why are
they ever granted, but as a recompense to those who have been at
great expence in acquiring a knowledge which has cost nothing to
the state? And why do they exert their utmost efforts in order to
conceal the secrets of their trade, and to be the only sharers in
the profits of it, but to make the public refund tenfold the
expence of their undertaking?

When companies are once firmly established, the next care of
a statesman is, to prevent the profits of their trade from rising
above a certain standard. We speak at present of those only, whom
by exclusive privileges, are exposed to no competition at their
sales. One very good method to keep down prices, is, to lay
companies under a necessity of increasing their stock as their
trade can bear it, by the admission of new associates; for by
increasing the company's stock, you increase, I suppose, the
quantity of goods they dispose of, and consequently diminish the
competition of those who demand of them: but as even this will
not have the effect of reducing prices to the adequate value of
the merchandize (a thing to be done by competition only), the
statesman himself may interpose an extraordinary operation. He
may support high profits to the company, upon all articles of
luxury consumed at home, and favour the keeping down of the
prices of such goods as are either for exportation or
manufacture.

This can be done when he has companies only to deal with: in
every other case, the principles of competition between different
merchants, trading in the same goods, upon separate interests,
makes the thing impossible. But where the interests of the
sellers, which are the company, are united, and where there is no
competition, they are masters of their price, according to the
principles laid down in the seventh chapter. Now, provided the
dividend upon the whole stock be a sufficient recompense both for
the value of the fund, and the industry of those who are employed
to turn it to account, the end is accomplished. Extraordinary
profits upon any particular species of trade cast a
discouragement upon all others.

We very frequently see that great trading companies become
the means of establishing public credit; on which occasions, it
is proper to distinguish between the trading stock of the
company, which remains in their possession, and the actions,
bonds, annuities, contracts, &c. which carry their name, and
which have nothing but the name in common. The price of the first is constantly regulated by the profits upon the trade; the price of the other, by the current value of money.

Let me next observe the advantage which might result to a nation, from a prudent interposition of the statesman, in the regulation of a tariff of prices for such goods as are put to sale without any competition on the side of the sellers.

The principles we have laid down, direct us to proscribe, as much as possible, all foreign consumption, especially that of work: and to encourage as much as possible the exportation of it. Now, if what the India company of England, for example, sells to strangers, and exports for a return in money, be equal to the money she herself has formerly exported, the balance upon the India trade will stand even. But if the competition of the French and Dutch be found hurtful to the English company in her outward sales, may not the government of this nation lend a hand towards rising the profits of the company, upon tea, china, and japan wares, which are articles of superfluity consumed by the rich at home, in order to enable the company to afford her silk and cotton stuffs to strangers, at a more reasonable rate? These operations, I say, are practicable, where a company sells without competition, but are never to be undertaken, but when the state of its affairs are perfectly well known; because the prices of exportable goods might, perhaps, be kept up by abuse and mismanagement, and not by the superior advantages which other nations have in carrying on a like commerce. The only remedy against abuse is reformation. But how often do we see a people lid under contribution in order to support that abuse!

Companies, we have said, owe their exclusive privileges to the difficulties to which an infant commerce is exposed: these difficulties once surmounted, and the company established upon a solid foundation, new objects of profit present themselves daily; so much, that the original institution is frequently eclipsed, by the accessory interests of the society. It is therefore the business of a statesman to take care that the exclusive privileges granted to a society, for a certain purpose, be not extended to other interests, nowise relative to that which set the society on foot, and gave it a name. And when exclusive privileges are given, a statesman should never fail to stipulate for himself, a particular privilege of inspection into all the affairs of the company, in order to be able to take measures which may effectually prevent bad consequences to the general interest of the nation, or to that of particular classes.

Let this suffice at present, as to the privileges enjoyed by companies in foreign trade. Let me now examine the nature of such societies in general, in order to discover their influence on the mercantile interests of a nation, and how they tend to bring every branch of trade to perfection, when they are established and carried on under the eye of a wise administration.

Besides the advantages and disadvantages above mentioned, there are others found to follow the establishment of trading companies. The first proceed from union, that is, a common interest; the last from disunion, that is, from separate interests.

A common interest unites, and a separate interest disunites the members of every society; and did not the first preponderate among mankind, there would be no society at all. Those of the same nation may have a common interest relative to foreigners, and a separate interest relative to one another. those of the same profession may have a common interest relative to the object of their industry, and a separate interest relative to the
carrying it on: the members of the same mercantile company may have the same interest in the dividend, and a separate interest in the administration of the fund which produces it. The children of the same family, nay even a man and his wife, though tied by the bonds of common interest, may be disjoined by the effects of a separate one. Mankind are like loadstones, they draw by one pole, and repel by another. And a statesman, in order to cement his society, should know how to engage every one, as far as possible, to turn his attracting pole towards the particular centre of common good.

From this emblematical representation of human society, I infer, that it is dangerous to the common interest, to permit too close an union between the members of any subaltern society. When the members of these are bound together, as it were by every articulation, they in some measure become independent of the great body. when the union is less intimate, they admit of other connections, which cement them to the general mass.

Companies ought to be permitted, consistently with these principles. Their mercantile interests alone ought to be united, so far as union is required to carry on their undertaking with reasonable profits; but beyond this, every collateral advantage by which the associates might profit, in consequence of their union, ought to be cut off; and the public should take care to support the interest of private persons against them, on all occasions, where they take advantage of their union to hurt the right of individuals. Let me illustrate this by an example. Several weavers, fishermen, or those of any other class of the industrious, unite their stocks, in order to overcome those difficulties to which single workmen are exposed, from a multiplication of expences, which can be saved by their association. This company makes a great demand for the materials necessary for carrying on their business. By this demand they attach to themselves a great many of the industrious not incorporated, who thereby get bread and employment. So far these find an advantage: but in proportion as the undertaking is extended, and the company becomes able to engross the whole, or a considerable part of such a manufacture, they destroy all competition for it: and by forming a single interest, in the purchase of it, as well as in the sale of their own manufactures, they profit in the first case, by reducing the gains of those who are not incorporated, below the proper standard; and in the second, they raise their own profits too far above what is necessary.

The method, therefore, to prevent such abuses, is, for a statesman to interpose; not by restraining the operations of the company, but by opposing the force of principles similar to those by which they profit, in such a manner as to render their unjust dealings ineffectual. If the weavers oppress the spinners, for instance, methods may be fallen upon, if not by incorporating the last, at least by uniting their interests, so as to prevent a hurtful competition among them. If the dealers in wool in England, profiting of the prohibition to export this commodity, should enter into a concert against the growers of it, in order to have the wool at their own price; government may easily disappoint them, by receiving in every county, at a reasonable price, all the wool which remains unsold. This quantity government may export, with far less hurt to England, than what the nation suffers by the concert among the wool merchants against the landed interest. He may likewise discourage too extensive companies, by establishing and supporting others, which may serve to preserve competition; and he may punish, severely,
every transgression of the laws tending to establish an arbitrary
dependence on the company. In short, while such societies are
forming, he ought to be their protector; and, when they are
formed, he ought to take those under his protection, whom they
might be apt to oppress.

In establishing companies for manufactures, it is a good
expedient to employ none in such undertakings, but those who have
been bred to the different branches of their business. When
people of fortune, ignorant and projecting, interest themselves
in infant manufactures, under the pretext of public spirit,
though merely with a view to become suddenly rich, they are so
bent upon making vast profits, proportioned to their stock, that
their hopes are generally disappointed, and the undertaking
fails. Pains-taking people, bred to frugality, content themselves
with smaller gains; but under the public protection, these will
swell into a large sum, and the accumulation of small profits
will form a new class of opulent people, who adopt, or rather
retain the sentiments of frugality with which they were born.

Thus, for instance, in establishing fisheries, instead of
private subscriptions from those who put in their money from
public spirit, and partly with a view to draw an interest for it;
or from those who are allured by the hopes of being great gainers
in the end, (the last I call projectors) the public should defray
the great expence: and coopers, sail-makers, rope-makers,
ship-carpenters, net-makers; in short, every one useful to the
undertaking, should be gratuitously taken in for a small share of
the profits; and by their being lodged together in a building, or
town, proper for carrying it on, every workman becomes an
undertaker to the company, for the articles of his own work. No
man concerned directly in the inter-prize, should reside
elsewhere than in the place: any one of the associates may
undertake to furnish what cannot be manufactured at home at fixed
prices. Thus the whole expence of the public in the support of
the undertaking, may circulate through the hands of those who
carry it on; and every one become a check upon another, for the
sake of the dividend upon the general profits. One great
advantage in carrying on undertakings in this manner, is, that
although those concerned draw no profit at all upon the
undertaking itself, they find their account in it, upon the
several branches of their own industry. The herring trade was at
first set on foot in Holland by a company of merchants, who
failed; and their stock of busses, stores, &c. being sold at an
under value, were bought by private people, who had been
instructed (at the expence of the company's miscarriage) in every
part of the trade, and who carried it on with success. Had the
company been set up at first in the manner here mentioned, their
trade never would have suffered any check.

Quest. 9. What are the principles which influence the
fluctuations in the price of subsistence, in countries where
agriculture, trade, and industry are solidly established? And by
what rule can we form a judgment, when such prices are too high
for the prosperity of manufacturers, and when they are too low
for the interests of agriculture?

The price of subsistence is fixed, as has been said, (chap.
28 of this book,) by the quantity which can be brought to market,
and the number of those who must buy it. This price may rise and
fall according to circumstances. When the quantity at any time
brought to market, exceeds the demand of the day, the sellers who
are the most pressed for money, lower the price. When the
quantity at any time brought to market, is less than the demand
of the day, the buyers who are the most pressed to have food
raise the price by their competition. In countries of agriculture, of industry, and of free-trade with the world, such fluctuations are confined within certain limits, namely, they cannot rise higher than the faculties of the buyers can afford to pay for the shortest subsistence; they cannot sink lower than what the goods can be exported for with profit.

The faculties of the buyers of subsistence, are very different; because every man here may be supposed to be a buyer, except the farmers, and such landlords whose rents are paid in articles of subsistence. The faculties, therefore, of the lowest and most numerous class, are these which circumscribe the rising of the price.

Let me call the classes who buy, by the letters of the alphabet a, b, c, d, e, f. If there be subsistence to be sold, amply sufficient, and no more than sufficient, for these six classes, which I suppose to be ranged according to the ease of their circumstances, from a, the highest, to f, the lowest; then the price of full subsistence will be in proportion to the faculties of f. Should the provision prove insufficient for the ample subsistence of all the classes, the price will rise; and f will be able to buy a part only. But should this part become less than the shortest subsistence for f, the demand of f would be withdrawn from the market, which then would be overstocked for the demand of the higher classes.

Now in countries of industry, this never can be the case; because the class f is there the most numerous of any; and before it can be reduced to the last stage of want, the diminution of its consumption will far exceed all deficiencies of crops, and will carry the supply for the higher classes far beyond the proportion of their demand; and prices will fall: to prevent which fall, the proprietors of the subsistence mechanically adjust the price they sell at, to the abilities of the lowest class to purchase the shortest subsistence; and beyond this prices never can rise.

Let me apply this reasoning to the situation of Scotland for three years preceding March 1768. The price of oat-meal, in the southern parts of the country was, during this period, constantly at or above one shilling per peck of eight pounds Amsterdam weight; and no misery was complained of by day-labourers who gain three shillings and sixpence and four shillings per week. This I reckon the class f in Scotland. From which I must conclude, that one shilling per peck of oat-meal, is compatible with the faculties of the Scots class of f. Again, four shillings per week is 10 l. 8s. per annum; and the usual computation for the food of a strong man in oat-meal is six bolls one half per annum, (or 832 pounds Amsterdam weight,) which, at one shilling per peck, is 5 l. 4s. From this it appears, that in Scotland, and according to the manner of living in this country, as long as the grain consumed by our lowest class, does not exceed the value of one half of their gains, no distress is found. I must further observe, that this computation as to their gains, regards married men with wives and children; and as it is a matter of fact, well known here, that families do subsist on such gains, and at such prices; the ascertaining of this circumstance is far more useful for determining the important question concerning the proportion between the faculties of the lowest classes, and the rate of subsistence, than any calculation which can be made. From this I am led to demand, if prices be higher, and wages lower in England, than with us?

A quarter of wheat is reckoned for the subsistence of an
inhabitant in England: and in France, where the people live in a manner upon bread alone, three septiers, or thirteen Winchester bushels, is a very reasonable allowance. There is also another very good way of comparing gains in England, with the rate of markets; namely, by observing how the sober married men among foot soldiers are found to live.

If a foot soldier have eight pence per diem, he is in a higher class than a Scots labourer who gains eight pence per diem; because he is paid for Sundays, as well as days of sickness and interruption from labour. The gains of the soldier are four shillings and eight pence every week in the year, the gains of the Scots labourer are four shillings, when he meets with no interruption.

Now in England, the lowest class, except the foot soldier, and the most numerous of any in the kingdom, is the country labourer who gains at least one shilling a day, in all seasons, of the year; as it appears from a late publication, intitled, 'A Six Weeks Tower through the Southern Counties of England and Wales.'

This author informs us, that in 1767, when high prices were so much complained of, bread was universally almost, at two-pence per pound, beef and mutton at four-pence; and that two-pence per diem is supposed to be equal to small beer; and in p. 179, he observes, that one shilling per diem the year round, with small beer, that is to say fourteen pence per diem, is excessively cheap labour. Now allowing an English labourer one pound and an half of bread, and three quarters of a pound of meat, with small beer, the expence will be eight-pence a day; consequently his food is but one penny more than one half of his wages, and day labourers are evidently the lowest class of industrious people all over England. What therefore are we to think of the universal clamour raised in the nation at that time, upon account of the distress of the industrious poor? What judgement are we to form concerning the universal acquiescence to the truth of these complaints by those who must have been the best informed concerning the true state of the matter? unless we suppose it to have been all a mere farce, or what the French call the secret of the comedy, to wit, a thing which every one knows, although nobody be supposed either to know it or to believe it.

The soldiers are evidently the class f in England. But the number of them is so small, when compared with any of the industrious classes, especially with the day labourers, that were it not for the frequent celibacy among them, I am persuaded high prices would greatly distress them, before any other class of men. The smallness of their numbers, I say, is an additional disadvantage to them; because it is the great number of the lowest class, which (for the reason already given) chiefly prevents prices from rising above their abilities to purchase a short subsistence.

While a foot soldier, then, can subsist upon his pay, at the rate of the English market, I never shall believe that any class of industrious people there, can be in such want as to require an extraordinary relief from the state; one especially which involves the landed interest (that is the farmers) in so great a distress, as to have the price of their grain diminished, without augmenting the quantity of it. This is the material difference between a reduction of prices when produced by plenty, and when produced by importation.

If it be said, that it is great severity to reduce people who labour hard, to the subsistence of an idle soldier, I answer, that people who labour hard, and those who added to their
diligence, have also a share of ingenuity in their several professions, constantly receive wages proportionally higher. The example of the soldier is taken in order to form an estimate only of the price at which people may subsist; and not to determine the rate of wages; which the rate of demand for their labour will constantly regulate, independently of the price of subsistence; and this leads me to another branch of this doctrine, which is, That the rate of wages is in proportion to the value of the work performed, relatively to the person who employs the workman, and not in proportion to the price of subsistence.

This I take to be an universal principle, in all countries of industry. It is this which distinguishes the industrious free-man from the poor slave. The industrious free-man must share in the profits of him who employs him; the poor slave can demand of his master no more than subsistence.

Let therefore subsistence be ever so cheap, the free-man will insist upon wages in proportion to the value of his work, when brought to market. Should his employer tell him, that because subsistence is at a low price, he must therefore work cheaper, he will tell his employer, that since on this account he sells no cheaper to his customers, neither will he work cheaper for him; and his argument is good; because were subsistence to rise ever so high, this would be no inducement to his employer to raise his wages in proportion, as long as the rate of the market for goods or labour, stands the same as at other times.

When the rate of the market for goods or labour is therefore raised upon any branch of industry; whether in consequence of a rise in the price of subsistence, or in consequence of a higher demand; then wages will rise, in spight of all attempts to circumscribe them. If, on the other hand, the rate of the market for goods or labour shall either stand the same, or even diminish, the employer will give no augmentation of wages, let provisions be ever so dear.

The poor slave, again, who gets no more than his subsistence at all times, is in the situation of the poor labouring horse, who is fed with the same provender, let it be dear or cheap.

What I have said, I take to be a fair and candid representation of general principles, which no state can alter: and when an attempt is made to counteract them, it will not succeed. Some individuals, indeed, may be relieved by it; but by stopping a small hole, a breach will be made in another part.

In every industrious society, the lowest class is frequently found reduced to the barely necessary. The competition among themselves to obtain employment at any rate, produces this effect; and competition must be allowed its free course.

I must now set forth the strongest objection which can be made against this whole doctrine; and, in my answer to it, I shall have an opportunity of explaining my meaning better than as yet I have done. The objection is this:

If it be true that in an industrious nation where, upon the average, grain is annually exported, the price of the shortest subsistence can at no time rise above the faculties of the lowest class of those who go to market; then we must say, that no scarcity whatsoever can there reduce the quantity of subsistence below what is barely necessary to feed the people.

Were I at once frankly to avow this consequence, and say, that in industrious nations, who on the average of years are subsisted on their own growth, the difference of crops is not greater than the difference between ample and bare subsistence, many at first sight, might be startled at so bold an assertion.

I must therefore say, that where crops are so precarious, as,
in some years, to deprive the people of the shortest subsistence, no nation can be industrious. What trade, what industry can stand its ground, while a part of the inhabitants are absolutely starving?

I have only one objection more to obviate, which is: That the supposition I have been reasoning on, to wit that England produces in the worst years a bare subsistence for all her inhabitants, cannot be admitted to be true.

The fact I apprehend to be really so: as I may, however, be mistaken, I must next propose a proper remedy even against this problematical want of subsistence.

We cannot reasonably suppose this deficiency to exceed (on the average of years) the greatest quantity of subsistence that ever was imported in any one year. Now this quantity is not equal to 200,000 quarters of all sorts of grain, as has been observed above. Let government, therefore, be at the expence of laying up upon the first appearance of plenty, 200,000 quarters of wheat and rye. Let them be deposited in some of the most considerable ports in the kingdom, and let none of this quantity ever be sold cheaper than at the price which at present is thought so high as to engage us to take off the duties on importation.

Were it to be issued at a lower rate than this the whole intention of such granaries would be defeated. Nay, were they to contain many millions of quarters in place of 200,000, still were they opened at a cheaper rate than at the highest price which grain ever ought to bear, they would soon be exhausted; because it is the high price only which circumscribes the consumption of the lowest class to the barely necessary, even in the times of free importation.

I am very far from wishing to see any industrious person in distress for want of food. The expedients I have been proposing, namely the raising of their wages, and establishing a granary, would, I am persuaded, prove much more certain and salutary expedients than any other, to prevent so great a distress. But I think, on the other hand, that the more soberly our lowest classes are made to live at all times, the cheaper may our manufactures be sold; and the better will foreign Markets for them be supplied.

Every one will acknowledge, that the cheapness of subsistence is never attended with a proportional fall in the price of commodities; and many know by experience, that it is more commonly attended with the riot and idleness of those upon whom the greatness of this nation principally depends, namely, the lower classes of our people.

I shall therefore conclude by observing, First, That the best, and indeed the only way to judge of reasonable prices, is to compare, as I have said, the gains of the lower classes with the price of the shortest subsistence; and that as long as the latter does not rise above the proportion of the first, nothing is to be feared. Secondly, That while there remains some small advantage in this proportion in favour of the lower classes, no great harm can ensue; but as soon as all proportion is totally lost, by the low price of provisions, industry runs a great risk to suffer in place of gaining ground.

Thirdly, That this proportion is to be maintained by granaries in years of scarcity, and by bounties in years of plenty. And, fourthly, That until experience shall evince, that the expedients here proposed are ineffectual, all importation should be laid aside, as a remedy violent in its nature; destructive to agriculture, and tending to diminish the balance
of our trade, with which alone we can discharge the heavy debt we owe to other nations.

Bounties which promote exportation, and which raise the prices of grain to the due proportion of the gains of the lowest class, even in years of plenty, resemble, in a great measure, an excise laid upon the luxury of the lower classes. The difference consists in this; that in bounties, the public incurs an expense, which not only remains at home, but has the effect of bringing in a great addition of wealth from our neighbours. This first circulates among ourselves, and at last finds its way into the exchequer. An excise again, brings money directly thither, without any circulation at all among ourselves, which is undoubtedly less advantageous to a trading nation.

Importation in England did not, while the ports were open in 1768 produce, I confess, any very hurtful consequences; because it then happened, that no nation in Europe enjoyed so great plenty of wheat, as to bring the price of this grain, so low as to hurt the English farmer. But it was not so in Scotland; where a very small importation of the poorest subsistence (oat-meal) will at any time bring our markets so low as to throw many of our farmers into the greatest distress.

NOTES:

1. The cities of the Austrian Netherlands are, from these causes, at present in a state of depopulation; and the industrious classes are assembling in the villages, which are beginning to rival the populousness of the cities. In these villages, the privileges of the cities are not established. Privileges which will in all probability end in their bankruptcy as well as depopulation. The depopulation will follow from the causes already mentioned; the bankruptcy from the sums these corporations lend to the sovereign, on the credit of new impositions constantly laying upon every branch of consumption. This is so true, that the acquisition of this country (one of the most fertile and most populous in Europe) would hardly be worth the having, if the debts due to the corporations were to be fairly paid, and their ruinous privileges (as they are called) allowed to subsist without alteration.
book, I found here that a full table of contents would give the reader a general view of the subject, and serve the purpose of recollection better.

Introduction

In an inquiry like this, where, at almost every step, we find it branching out into new relations, which lead to different chains of consequences, it is of use to have recourse to every expedient for connecting the whole together.

For this purpose, an introductory chapter at the beginning of a new subject seems necessary.

The reader will have observed that the last chapters of the preceding book (those I mean which treat of the vibration of the balance of wealth and of circulation) have been written with a view to introduce the subject of money.

I thought it better to anticipate some principles by connecting them directly with those of trade, than to introduce this part of my subject as a new treatise.

The assistance our memory receives from such a distribution must compensate the inconvenience of a few repetitions.

I have, in the last chapters of the second book here referred to, had occasion to mention, and slightly to point out some essential differences between coin and paper money. I have shewn the great usefulness of the latter in supporting circulation.

Although, in giving the definition of paper money in the twenty-sixth chapter of the second book, I mentioned credit as being a term synonymous with it; yet this was done merely for the sake of simplifying our ideas: one of the best expedients for casting light upon an intricate subject. It is now requisite to point out the difference between them.

Symbolical or paper money is but a species of credit: it is no more than the measure by which credit is reckoned. Credit is the basis of all contracts between men: few contracts can operate so instantaneously as not to leave some performance, or prestation, as the civilians call it, on one side or other, at least for a short time, in suspense. He therefore who fulfils his part, gives credit to the party who promises only to fulfil, and according to the variety of contracts, the nature of the prestations or performances, therein stipulated, and the security given for fulfilling what is not performed, credit assumes different forms, and communicates to us different ideas. Paper credit or symbolical money, on the other hand, is more simple. It is an obligation to pay the intrinsic value of certain denominations of money contained in the paper. Here then lies the difference between a payment made in coin, and another made in paper. He who pays in coin, puts the person to whom he pays in the real possession of what he owed; and this done, there is no more place for credit. He who pays in paper puts his creditor in possession only of another person’s obligation to make that value good to him: here credit is necessary even after the payment is made.

Some intrinsic value or other, therefore, must be found out to form the basis of paper money: for without this it is impossible to fix any determinate standard-worth for the denominations contained in the paper.

I have found no branch of my subject so difficult to reduce to principles, as the doctrine of money: this difficulty, however, has not deterred me from undertaking it. It is of great consequence to a statesman to understand it thoroughly; and it is of the last importance to trade and credit, that the money of a
nation be kept stable and invariable.

To keep my ideas as distinct as the nature of this subject will admit, I have in the first part adhered to a deduction of general principles, taking by way of illustration, as I go along, the present state of the British currency.

In the second part, I shall examine the effects of turning coin into a manufacture, by superadding the price of fabrication to its value; and point out the consequences of this additional combination upon exchange, and the interest of trading nations.

Chap. I

Of Money of Account

The metals have so long performed the use of money, that money and coin are become almost synonimous, although in their principles they be quite different.

The first thing therefore to be done in treating of money, is, to separate two ideas, which, by being blended together, have very greatly contributed to throw a cloud upon the whole subject. Money, which I call of account, is no more than an arbitrary scale of equal parts, invented for measuring the respective value of things vendible.

Money of account therefore, is quite a different thing from money-coin, and might exist, although there was no such thing in the world as any substance, which could become an adequate and proportional equivalent for every commodity.

The subject therefore of the first chapter shall be, 1. To point out the principles which determine the value of things; 2. The use of an invariable scale to measure their value; 3. How the invention of money of account is exactly adapted for measuring the value on the one hand, and measuring the price on the other; and 4. How it preserves itself invariable amidst all the fluctuations, not only of the value of things themselves, but of the metals which are commonly considered as the measures of their value.

First, Money of account, which I shall here call money, performs the same office with regard to the value of things, that degrees, minutes, seconds, &c. do with regard to angles, or as scales do to geographical maps, or to plans of any kind.

In all these inventions, there is constantly some denomination taken for the unit. In angles, it is the degree; in geography, it is the mile, or league; in plans, the foot, yard, or toise; in money, it is the pound, livre, florin, &c.

The degree has no determinate length, so neither has that part of the scale upon plans which marks the unit: the usefulness of all those inventions being solely confined to the marking of proportion.

Just so the unit in money can have no invariable determinate proportion to any part of value, that is to say, it cannot be fixed to perpetuity to any particular quantity of gold, silver, or any other commodity whatsoever.

But it may be ascertained for a time, and then we can, by multiplying it, ascend to the greatest value; and when we descend below the subaltern divisions of this unit, we have the assistance of measures and weights, which render the operation easy. Thus in England, where a farthing is the lowest denomination of money, the grains of wheat are bought by measure, and cherries by the pound.
II. The value of things depends upon many circumstances, which however may be reduced to four principal heads:

First, The abundance of the things to be valued.
Secondly, The demand which mankind make for them.
Thirdly, The competition between the demanders; and
Fourthly, The extent of the faculties of the demanders.

The function therefore of money is to publish and make known the value of things, as it is regulated by the combination of all these circumstances.

This proposition I think is self-evident, and it is susceptible of a thousand proofs; I shall mention only one.

Were there a determinate proportion between certain quantities of gold and silver, and certain quantities of other things vendible, I do not see how prices could vary while the proportion of quantity to quantity between metals and things remained the same.

But if the desires of men to possess any particular commodity and the competition between them to acquire it be capable to raise a thing, formerly of the lowest value, to any height, and if the absence of these circumstances can debase a thing formerly of great value, to the lowest rate, is it not evident, that the price, that is, the gold and silver people possess (even allowing that it may upon many occasions promote a competition among them) can never be the measure of their fancies or caprices, which are what constitutes the value of things.

Substances are valued either according to their weight, their superficial measure, the measure of their bulk, or by the piece. These may be considered as the four classes of vendible corporeal commodities.

All the species of each class according to their different qualities of goodness, may be reduced to a proportion of value. A pound of gold, of lead, of different grains, of different butters, or of what you will, valued by the pound, may at any precise time, be reduced to a scale of proportional values, which the wants, demands, competition and faculties of buyers and sellers, keep in a perpetual fluctuation.

As far therefore, as an increase of the metals and coin shall produce an increase of demand, and a greater competition than before, so far will this circumstance influence the rise of prices, and no farther.

The value of commodities therefore, depending upon circumstances relative to themselves and to the fancies of men, their value ought to be considered as changing with respect to one another only: consequently, any thing which troubles or perplexes the ascertaining these changes of proportion by the means of a general, determinate and invariable scale, must be hurtful to trade, and a clog upon alienation. This trouble and perplexity is the infallible consequence of every vice in the policy of money or of coin.

III. It may here be demanded what necessity there is to have recourse to such a metaphysical deduction upon so familiar a subject. Do we not see every where that things are valued by silver and gold coin, and that there is no occasion to reject them at this time, in order to introduce an imaginary scale.

I answer, that nothing but necessity obliges me to introduce this imaginary scale, and that not with any intention to reject the service of the metals in performing the office of a measure, but as an assistance to our understanding for comprehending the
doctrine of money, and for rightly distinguishing the ideas which are daily proposed to us by those who write and speak concerning its theory.

Could gold and silver coin exactly perform the office of money, it would be absurd to introduce any other measure of value; but there are moral and physical incapacities in the metals, which prevent their performing the function of a scale: and the common opinion being, that there are no such incapacities, makes it necessary to expose them in the clearest light, by shewing the exact difference between price (that is coin) considered as a measure, and price considered as an equivalent for value.

The inconsistencies which follow, when we depend blindly upon the infallibility of the metal's discharging this double office, tend to confound the whole system of our ideas concerning those matters.

The moral as well as physical incapacities inherent in the metals, which prevent their performing exactly the office of money, shall be afterwards pointed out. I must at present explain a little farther the nature of ideal money.

IV. Money, strictly and philosophically speaking, is, as has been said, an ideal scale of equal parts. If it be demanded what ought to be the standard value of one part? I answer, by putting another question; What is the standard length of a degree, a minute, a second?

It has none, and there is no necessity of its having any other than what by convention mankind think fit to give it. But so soon as one part becomes determined, by the nature of a scale, all the rest must follow in proportion.

The first step being perfectly arbitrary, people may adjust one or more of those parts to a precise quantity of the precious metals; and so soon as this is done, and that money becomes realized, as it were, in gold and silver, then it acquires a new definition: it then becomes the price, as well as the measure of value.

It does not follow from this adjusting of the metals to the scale of value, that they themselves should therefore become the scale, as any one must readily perceive.

But in former times, before the introduction of commerce, when mankind had less occasion to measure value with a scrupulous exactness, the permanent nature of the metals rendered them sufficiently correct, both to serve as the scale, and as the price in every alienation. Since the introduction of commerce, nations have learned the importance of reducing their respective interests and debts, to the nicest equations of value; and this has pointed out the inconvenience of admitting the metals, as formerly, to serve both as the measure and the price in such operations.

Just so geographers and astronomers were long of opinion, that a degree of the equator was a determinate length to measure every degree of latitude upon the globe.

They then considered the earth as a sphere, and no great inconveniency was found to result from this supposition. But as accuracy made a progress, this measure was found to be incorrect. Degrees of latitude are now found to be of different lengths in different climates; and perhaps in time it will be found that no two degrees of any great circle described upon the globe, are in a geometrical equality.

That money, therefore, which constantly preserves an equal value, which poises itself, as it were, in a just equilibrium
between the fluctuating proportion of the value of things, is the only permanent and equal scale, by which value can be measured.

Of this kind of money, and of the possibility of establishing it, we have two examples: the first, among one of the most knowing; the second, among the most ignorant nations of the world. The Bank of Amsterdam presents us with the one, the coast of Angola with the other.

A florin banco has a more determinate value than a pound of fine gold, or silver; it is an unit which the invention of men, instructed in the arts of commerce, have found out.

This bank money stands invariable like a rock in the sea. According to this ideal standard are the prices of all things regulated; and very few people can tell exactly what it depends upon. The precious metals with their intrinsic value, vary with regard to this common measure, like every other thing. A pound of gold, a pound of silver, a thousand guineas, a thousand crowns, a thousand piastres, or a thousand ducats, are sometimes worth more, sometimes worth less of this invariable standard; according as the proportion of the metals of which they are made vary between themselves.

No adulterations in the weight, fineness, or denominations of coin have any effect upon bank money. These currencies which the bank looks upon as merchandise, like every other thing, are either worth more or less bank money, according to the actual value of the metals they are made of. All is merchandise with respect to this standard; consequently, it stands unrivalled in the exercise of its function of a common measure.

The second example is found among the savages upon the African coast of Angola, where there is no real money known. The inhabitants there reckon by macoutes; and in some places this denomination is subdivided into decimals, called pieces. One macoute is equal to ten pieces. This is just a scale of equal parts for estimating the trucks they make. If a sheep, e.g. be worth 10 macoutes, an ox may be worth 40, and a handful of gold dust 1000.

Money of account, therefore, cannot be fixed to any material substance, the value of which may vary with respect to other things. The operations of trade, and the effects of an universal circulation of value, over the commercial world, can alone adjust the fluctuating value of all kinds of merchandise, to this invariable standard. This is a representation of the bank money of Amsterdam, which may at all times be most accurately specified in a determinate weight of silver and gold; but which can never be tied down to that precise weight for twenty-four hours, any more than to a barrel of herrings.

Chap. II

Of Artificial or Material Money

From the infancy of the world, at least as far back as our accounts of the transactions of mankind reach, we find they had adopted the precious metals, that is silver and gold, as the common measure of value, and as the adequate equivalent for every thing alienable.

The metals are admirably adapted for this purpose; they are perfectly homogeneous: When pure, their masses, or bulks, are exactly in proportion to their weights: No physical difference can be found between two pounds of gold, or silver, let them be the production of the mines of Europe, Asia, Africa, or America: they are perfectly malleable, fusible, and suffer the most exact
division which human art is capable to give them: They are capable of being mixed with one another, as well as with metals of a baser, that is, of a less homogeneous nature, such as copper. By this mixture they spread themselves uniformly it be through the whole of the compound mass, so that every atom of comes proportionally possessed of a share of this noble mixture; by which means the subdivision of the precious metals is rendered very extensive.

Their physical qualities are invariable; they lose nothing by keeping; they are solid and durable; and though their parts are separated by friction, like every other thing, yet still they are of the number of those which suffer least by it.

If money, therefore, can be made of any thing, that is, if the proportional value of things vendible can be measured by any thing material, it may be measured by the metals.

II. The two metals being pitched upon as the most proper substances for realizing the ideal scale of money, those who undertake the operation of adjusting a standard must constantly keep in their eye the nature and qualities of a scale, as well as the principles upon which it is formed.

The unit of the scale must constantly be the same, although realized in the metals, or the whole operation fails in the most essential part. This realizing the unit is like adjusting a pair of compasses to a geometrical scale, where the smallest deviation from the exact opening once given must occasion an incorrect measure. The metals, therefore, are to money what a pair of compasses is to a geometrical scale.

This operation of adjusting the metals to the money of account, implies an exact and determinate proportion of both metals to the money-unit, realized in all the species and denominations of coin, adjusted to this standard.

The smallest particle of either metal added to, or taken away from any coin, which represents certain determinate parts of the scale, overturns the whole system of material money. And if, notwithstanding such variation, these coins continue to bear the same denominations as before, this will as effectually destroy their usefulness in measuring the value of things, as it would overturn the usefulness of a pair of compasses, to suffer the opening to vary, after it is adjusted to the scale representing feet, toises, miles, or leagues, by which the distances upon the plan are to be measured.

III. Debasing the standard is a good term; because it conveys a clear and distinct idea. It is diminishing the weight of the pure metal contained in that denomination by which a nation reckons, and which we have called the money-unit. Raising the standard requires no farther definition, being the direct contrary.

IV. Altering the standard (that is raising or debasing the value of the money-unit) is like altering the national measures or weights. This is best discovered by comparing the thing altered with things of the same nature which have suffered no alteration. Thus if the foot of measure was altered at once over all England, by adding to it, or taking from it, any proportional part of its standard length, the alteration would be best discovered, by comparing the new foot with that of Paris, or of any other country, which had suffered no alteration. Just so, if the pound sterling which is the English unit, shall be found any how changed, and if the variation it has met with be difficult to
ascertain, because of a complication of circumstances, the best way to discover it will be to compare the former and the present value of it with the money of other nations which has suffered no variation. This the course of exchange will perform with the greatest exactness.

V. Artists pretend, that the precious metals, when absolutely pure from any mixture, are not of sufficient hardness to constitute a solid and lasting coin. They are found also in the mines mixed with other metals of a baser nature, and the bringing them to a state of perfect purity occasions an unnecessary expence. To avoid, therefore, the inconvenience of employing them in all their purity, people have adopted the expedient of mixing them with a determinate proportion of other metals, which hurts neither their fusibility, malleability, beauty, or lustre. This metal is called alloy, and being considered merely as a support to the principal metal, is accounted of no value in itself. So that eleven ounces of gold, when mixed with one ounce of silver, acquires, by that addition, no augmentation of value whatever.

This being the case, we shall, in speaking of money, overlook, as much as possible, the existence of alloy, in order to render language less subject to ambiguity. I must except such cases, where the considering the mass of the compound metal, according to its weight, can be accompanied with no inconvenience.

Chap. III

Incapacities of the Metals to perform the Office of an invariable Measure of Value

Were there but one species of such a substance as we have represented gold and silver to be: were there but one metal possessing the qualities of purity, divisibility, and durability: the inconveniences in the use of it for money would be fewer by far than they are found to be as matters stand.

Such a metal might then, by an unlimited division into parts exactly equal, be made to serve as a tolerably steady and universal measure. But the rivalship between the metals, and the perfect equality which is found between all their physical qualities, so far as regards purity, and divisibility, render them so equally well adapted to serve as the common measure of value, that they are universally admitted to pass current as money.

What is the consequence of this? That the one measures the value of the other, as well as that of every other thing. Now the moment any measure begins to be measured by another, the proportion of which to it is not physically, perpetually, and invariably the same, all the usefulness of such a measure is lost. An example will make this plain.

A foot of measure is a determinate length. An English foot may be compared with the Paris foot, or with that of the Rhine; that is to say, it may be measured by them; and the proportion between their lengths may be expressed in numbers; which proportion will be the same perpetually. The measuring the one by the other will occasion no uncertainty; and we may speak of lengths by Paris feet, and be perfectly well understood by others who are used to measure by the English foot, or by the foot of the Rhine.

But suppose that a youth of twelve years old should take it into his head to measure from time to time, as he advances in
age, by the length of his own foot, and that he should divide this growing foot into inches and decimals: what could be learned from his account of measures? As he increases in years, his foot, its inches, and subdivisions, will lengthen gradually; and were every man to follow his example, and measure by his own foot, then the foot of measure now established would totally cease to be of any utility.

This is just the case with the two metals. There is no determinate invariable proportion between their value; and the consequence of this is, that when they are both taken for measuring the value of other things, the things to be measured, like the lengths to be measured by the young man's foot, without changing their relative proportion between themselves, change however with respect to the denominations of both their measures. An example will make this plain.

Let us suppose an ox to be worth three thousand pounds weight of wheat, and the one and the other to be worth an ounce of gold, and the ounce of gold to be worth exactly fifteen ounces of silver: if the case should happen, that the proportional value between gold and silver should come to be as 14 is to 1, would not the ox, and consequently the wheat, be estimated at less in silver, and more in gold, than formerly? I ask farther, if it would be in the power of any state to prevent this variation in the measure of the value of oxen and wheat, without putting into the unit of their money less silver and more gold than formerly?

If therefore any particular state should fix the standard of the unit of their money to one species of the metals, while in fact both the one and the other are actually employed in measuring value; would not such a state resemble the young man, who measures all by his growing foot? For, if silver, for example, be retained as the standard, while it is gaining upon gold one fifteenth additional value; and if gold continue all the while to determine the value of things as well as silver, it is plain that, to all intents and purposes, this silver measure is lengthening daily, like the young man's foot, since the same weight of it must become every day equivalent to more and more of the same commodity; notwithstanding we suppose the same proportion to subsist, without the least variation between this commodity and every other species of things alienable.

After having exposed the matter in this light, I think it can hardly, with reason, be urged, that notwithstanding it be admitted that gold and silver may change their proportion of value with regard to one another, yet still this does not prevent silver from remaining the standard, without any inconvenience; for the following reasons.

First, Because, when it is considered as a standard, it never ought to be looked upon as changing its value with regard to gold; but that gold ought to be considered as changing its value with regard to silver.

Secondly, Because being the measure itself, it is absurd to consider it as the thing measured; that therefore it retains all the requisites of an invariable scale; since it measures all things according to the proportion they bear to itself, which physically can never vary. And,

Thirdly, That a person who has borrowed a certain weight of silver from another, is obliged to repay the same weight of silver he had borrowed; although at that time silver should be of greater value than when he borrowed it.

I answer to the first argument: That if in fact silver should become of more or less value with respect to merchandize, with respect to gold, and with respect to bank money, by there being a
greater or less demand for it than there was before; I cannot see how calling it a standard, can remove this inconvenience, which is inseparable from the nature of the thing; nor how we can change a matter of fact, by changing our language, and by saying, that merchandize, gold, and bank money, become of more value, or of less value, with respect to silver, in proportion as the demand for them is greater or less. This language we must use, although we know for certain that these things remain in the exact relative proportion of quantity and demand as before: And although it should evidently appear, that a demand for silver has raised the price of it, with respect to every thing it measured the day before.

If the yard in a mercer's shop should be subject to such revolutions, in consequence of the wood it was made of; and if in measuring a piece of stuff to a customer, which the mercer had bought by this yard the day before for 50 yards, he should find the piece measure but 40, it would not be easy to persuade him, I believe, that his piece was become shorter; but suppose he should have the curiosity to measure over again all the pieces in his shop, and that he should find exactly one fifth diminution upon the length of every one, would he not very rationally conclude that his yard was grown longer, and would he not run immediately to his neighbour's shop and compare it?

As to the second argument, I agree that silver may at all times very exactly measure the value of things with respect to itself; but this gives us no idea of an universal measure.

I can measure the proportion of the length of things, with any rod or with any line, the length of which I know nothing about; but no body calls this measuring, because I cannot compare the things measured, with any other thing which I have not measured with the same rod or line, as I might easily do, had I measured with a foot, yard, or toise; consequently the intention of measuring in such a case is almost entirely lost.

To the third argument, I answer, that I subscribe very willingly to the truth of that proposition; provided that by silver is understood the bare measure, without attending to its additional quality of the universal standard measure of value. But if I borrow the silver not as bullion, but as coin (the common measure of value), then I say, that I overpay in giving back the same weight I had received. Is there any thing more familiar than such examples? I borrow 100 l. from my neighbour, he proposes to give so much of the value in grain; I accept. The price of grain rises about the term of payment; can I be obliged to repay an equal quantity of grain in payment of a proportional part of what I owe? By no means; because I did not receive the grain as any thing but as a species of money. But if I borrow some quarters of grain to be repaid in harvest, then I am obliged to restore grain for grain, because in this case I did not receive the grain as money, but as a commodity.

Buying and selling are purely conventional, and no man is obliged to give his merchandize at what may be supposed to be the proportion of its worth. The use, therefore, of an universal measure, is, to mark, not only the relative value of the things to which it is applied as a measure, but to discover in an instant the proportion between the value of these, and of every other commodity valued by a determinate measure in all the countries of the world.

Were pounds sterling, livres, florins, piastres, &c. which are all money of account, invariable in their values, what a facility would it produce in all conversions, what an assistance to trade! But as they are all limited or fixed to coins, and
consequently vary from time to time, this example shews the utility of the invariable measure which we have described.

There is another circumstance which incapacitates the metals from performing the office of money. the substance of which the coin is made, is a commodity, which rises and sinks in its value with respect to other commodities, according to the wants, competition, and caprices of mankind. The advantage, therefore, found in putting intrinsic value into that substance which performs the function of money of account, is compensated by the instability of that intrinsic value; and the advantage obtained by the stability of paper, or symbolical money, is compensated by the defect it commonly has of not being at all times susceptible of realization into solid property, or intrinsic value.

In order, therefore, to render material money more perfect, this quality of metal, that is of a commodity, should be taken from it; and in order to render paper money more perfect, it ought to be made to circulate upon metallic or land security. The expedient with regard to the metals shall find a place in this inquiry (in the chapter of miscellaneous questions at the end of this book, article 4th). What regards the paper is foreign to our purpose, and belongs to the doctrine of credit.

II. There are several smaller inconveniences accompanying the use of the metals, which we shall here shortly enumerate, reserving the discussion of all the consequences they draw along with them, until we come to consider the operations of trade and money, upon the complicated interests of mankind.

First, No money made of gold or silver can circulate long, without losing its weight, although it all along preserves the same denomination. This represents the contracting a pair of compasses which had been rightly adjusted to the scale. Such a defect must appear striking, when we reflect upon the principles (already laid down) which necessarily influence the fixing of a standard.

Secondly, Another inconvenience proceeds from the fabrication of money. Supposing the faith of Princes who coin money to be inviolable, and the probity, as well as capacity, of those to whom they commit the inspection of the fineness of the metals to be sufficient, it is hardly possible for workmen to render every piece exactly of a proper weight, or to preserve the due proportion between pieces of different denominations; that is to say, to make every ten six-pences exactly of the same weight with every crown piece and with every five shillings struck in a coinage. In proportion to such inaccuracies, the parts of the scale become unequal.

Thirdly, Another inconvenience, and far from being inconsiderable, flows from the expence requisite for the coining of money. This expence adds to its value as a manufacture, without adding anything to its weight. I shall take notice, in the proper place, of the consequences which attend this inconvenience, even to nations where coinage is free.

Fourthly, The last inconvenience I shall mention, is, that by fixing the money of account entirely to the coin, without having any independent common measure (to mark and control these deviations from mathematical exactness, which are either inseparable from the metals themselves, or from the fabrication of them) the whole measure of value, and all the relative interests of debtors and creditors, become at the disposal not only of workmen in the mint, of Jews who deal in money, of clippers and washers of coin, but they are also entirely at the mercy of Princes, who have the right of coinage, and who have
frequently also the right of raising or debasing the standard of the coin, according as they find it most for their present and temporary interest.

Several of the inconveniences we have here enumerated, may appear trifling, and so they are found to be in countries where commerce is little known; but the operations of trade surpass in nicety the conceptions of any man but a merchant; and as a proof of this, it may be affirmed with truth, that one shilling can hardly lose a grain of its weight, either by fraud or circulation, without contributing, by that circumstance, towards the diminution of the standard value of the money-unit, or pound sterling, over all England, as I hope to be able to shew both by reason and facts.

All and every one of these inconveniences to which coin is exposed, disappear in counties where the use of pure ideal money of account is properly established.

Chap. IV

Methods which may be proposed for lessening the several inconveniences to which material Money is liable

In this chapter, I shall point out the methods which may be proposed for lessening the inconveniences to which all coin is liable, in order thereby to make it resemble as much as possible the invariable scale of ideal money of accompt.

To propose the throwing out of coin altogether, because it is liable to inconveniences, and the reducing all to an ideal standard, is acting like the tyrant who adjusted every man's length to that of his own bed, cutting from the length of those who were taller than himself, and racking and stretching the limbs of such as he found to be of a lower stature. The use of theory in political matters is not merely to discover the methods of removing all abuses, it must also lend its aid towards palliating inconveniences which are not easily cured.

The inconveniences from the variation in the relative value of the metals to one another, may in some measure be obviated by the following expedients.

First, By considering one only as the standard and leaving the other to seek its own value, like any other commodity.

Secondly, By considering one only as the standard, and fixing the value of the other from time to time by authority, according as the market price of the metals shall vary.

Thirdly, By fixing the standard of the unit according to the mean proportion of the metals, attaching it to neither; regulating the coin accordingly; and upon every considerable variation in the proportion between them, either to make a new coinage, or to raise the denomination of one of the species, and lower it in the other, in order to preserve the unit exactly in the mean proportion between the gold and silver.

In order to explain this thought, let me observe, that the consequence of every variation in the proportion between the value of gold and silver, has this effect; namely, that the same weight of silver acquires upon every change a different value in gold, from what it had before; and the same weight of gold acquires, upon the change, a different value in silver from what it had before. Let me illustrate this by an example.

Suppose, then, the value of gold to be to the value of silver, as 1 to 14. Then 100 grains of gold will be worth 1400 grains of silver.

Suppose, that next year, the proportion shall change, and
that it shall come to be as 1 to 15; then 100 grains of gold will be worth 1500 grains of silver.

Here then, are two different values in silver for the same quantity of gold, namely at one time 100 grains gold = 1400 grains silver; at another time 100 ditto = 1500 ditto. Add these two quantities of silver together, they make 2900 grains. Take one half of the sum, or 1450. This I call the mean proportion of the silver. On the other hand, as to the gold;

| 1400 grs silver at one time are worth | 100 grs of gold |
| 1400 grs ditto at another time are worth | 93 1/3 |
| 15 | together 193 1/3 |

one half of which is 96 2/3 grs. or the mean proportion of gold.

Supposing, therefore, the unit to have been determined at 100 grs of gold, and at 1400 grains of silver, as soon as the proportion comes to 15 it must be changed to 93 5/6 grs of gold, and to 1450 grs of silver.

This shall be fully explained and the usefulness of it pointed out in the XIIIth and XVth Chapters.

Fourthly, To have two units, and two standards, one of gold, and one of silver, and to allow every body to stipulate in either.

Fifthly, Or last of all, to oblige all debtors to pay, when required, one half in gold and one half in the silver standard.

I have here proposed the attaching the standard to one of the species, as a remedy against the effects of variation between the metals, because when this is done, the consequences are not so hurtful as when the unit is affixed to both, as I shall prove in its proper place.

The regulating the proportion of that metal, which is considered as merchandize, to the other which is considered as the standard, upon every variation in the market price of bullion, as well as the other expedient, of establishing two units, the one of gold, and the other of silver, does not render the unit of money any more invariable than before; all that can be said for this expedient, is, that money becomes thereby more determinate, and that people who enter into permanent contracts are, at least, apprised of the consequences of the varying of the proportion of the metals, and may regulate their interests accordingly.

Fixing the standard to the mean proportion of the metals, is a certain method of preserving the value of the unit invariably in time to come; but upon subsequent variations in the proportion, it implies either the necessity of a recoinage, or of changing the denominations of the coin, by which fractions of farthings, deniers and other such small denominations will be incurred, unless such a duty upon coinage be imposed, as may raise the value of the coins above that of common bullion, beyond the value of such fractions of farthings, &c., which then may be thrown out. Example upon changing the denomination of a shilling; supposing the exact proportion of its new denomination should be 12 28d.; the legal denomination may be made 12 1/4 which is 12 25d. and the three additional hundredth parts of a penny may be neglected; because the duty on coinage will give an advanced value to the shilling price, beyond the three hundredth part of one penny; which, as a metal, it will have more than in proportion to its denomination.

The last expedient of making debtors pay half in gold and
half in silver, would remove every inconvenience, provided that a similar regulation were made at the mint and at the Bank of England, appointing all bullion to be delivered in both species at the Mint; and all payments to be made in both species at the Bank: and also provided that the same regulation should be observed in all bargains of sale, as often only as required. This would so blend the value of the two metals together, as to make them virtually but one.

II. The other imperfections of coin have been already enumerated. They relate either to its wear, to the want of exactness in the fabrication, to the price of coinage, or to the opportunity thereby afforded to princes to adulterate and change the standard.

First, As to the first the best expedients are, to strike the greatest part of the coin in large solid pieces, having as little surface as possible, consistently with beauty and ease of fabrication.

To order large sums (of silver at least) to circulate in bags of determinate sums, and determinate weights, all in pieces of the larger denominations.

And to make all light coin whatsoever go by weight, upon the requisition of the person who is to receive it.

Secondly, As to the inaccuracy of the fabrication, there is no other remedy than a strict attention in government to a matter of so great consequence.

Thirdly, The price of coinage principally affects the interest of nations with regard to foreign trade; consequently, trading states should endeavour, as nearly as possible, to observe the same regulations with their neighbours, in every thing which regards the coin. The consequence of this inconvenience to those within the society is unavoidable, and therefore no remedy can be proposed.

Fourthly, The establishment of public credit is the best security against all adulterations of the standard. No fundamental law can bind up a prince's hands so effectually as his own interest. While a Prince lives within his income, he will have no occasion to adulterate the coin; when he exceeds it, he will (in a trading nation) have recourse to credit, and if once he establish this, he must give over meddling with the standard of his coin, or he will get no body to lend him any more. The only Prince who can gain by adulterating the standard, is he who seeks for extraordinary supplies out of a treasure already formed.

These are, briefly, the expedients to be put in practice by those governments which have the prosperity of their subjects at heart. The infinite variety of circumstances relating to every state can alone decide as to those which are respectively proper to be adopted by each. Our business at present is to point out the variations to which the value of the money-unit is exposed, from every disorder in the coin; and to shew that as far as the value of the unit shall be affected by them, so far must material money in such a case be defective.

Chap. V

Variations to which the Value of the Money-unit is exposed from every Disorder in the Coin

Let us suppose, at present, the only disorder to consist in a want of the due proportion between the gold and silver in the
This proportion can be established by the market price of the metals only, because an augmentation and rise in the demand for gold or silver has the effect of augmenting the value of the metal demanded. Let us suppose that to-day one pound of gold may buy fifteen pounds of silver; if to-morrow there be a high demand for silver, a competition among merchants, to have silver for gold, will ensue, they will contend who shall get the silver at the rate of fifteen pounds for one of gold: this will rise the price of it, and in proportion to their views of profit, some will accept of less than the fifteen pounds. This is plainly a rise in the silver, more properly than a fall in the gold; because it is the competition for the silver which has occasioned the variation in the former proportion between the metals. Had the competition for gold carried the proportion above 1 to 15, I should then have said that the gold had risen.

As it is, therefore, the active demand for either gold or silver, which makes the price of the metals to vary, I think language would be more correct (in speaking concerning the metals only) never to mention the sinking of the price of either gold or silver. As to every other merchandize, the expression is very proper; because the diminishing of the price of one commodity, does not so essentially imply the rise of any other, as the sinking of one of the metals must imply the rising of the other, since they are the only measures of one another's worth. I would not be here understood to mean that the term sinking of the price of gold or silver is improper; all I say is, that the other being equally proper, and conveying with it the cause of the variation (to wit, the competition to acquire one metal preferably to the other), may be preferred, and this the rather, that from using these terms promiscuously (gold has fallen, instead of silver has risen) we are apt to believe, that the falling of the price of the metal, must proceed from some augmentation of the quantity of it; whereas it commonly proceeds from no other cause than a higher demand than formerly for the other.

Let us now suppose that a state having, with great exactness, examined the proportion of the metals in the market, and having determined the precise quantity of each for realizing or representing the money-unit, should execute a most exact coinage of gold and silver coin. As long as this proportion continues unvaried in the market, no inconvenience can result from that quarter, in making use of the metals for money of account. But let us suppose the proportion to change; that the silver, for example, should rise in its value with regard to gold; will it not follow, from that moment, that the unit realized in the silver, will become of more value than the unit realized in the gold coin.

But as the law has ordered them to pass as equivalents for one another and as debtors have always the option of paying in what legal coin they think fit, will they not all choose to pay in gold, and will not then the silver coin be melted down or exported, in order to be sold as bullion, above the value it bears when it circulates in coin? Will not this paying in gold also really diminish the value of the money-unit, since upon this variation every thing must sell for more gold than before, as we have already observed?

Consequently, merchandize which has not varied in its relative value to any other thing but to gold and silver, must be measured by the mean proportion of the metals, and the application of any other measure to it is altering the standard. If it is measured by the gold, the standard is debased; if by
silver, it is raised, as shall presently be proved.

If, to prevent the inconvenience of melting down the silver, the state should give up affixing the value of their unit to both species at once, and should fix it to one, leaving the other to seek its price as any other commodity, in this case no doubt the melting down of the coin will be prevented; but will this ever restore the value of the money-unit to its former standard? Would it, for example, in the foregoing supposition, raise the debased value of the money-unit in the gold coin, if this species were declared to be the standard? It would indeed render silver coin purely a merchandise, and by allowing it to seek its value, would certainly prevent it from being melted down as before; because the pieces would rise conventionally in their denomination; or an agio, as it is called, would be taken in payments made in silver; but the gold would not, on that account, rise in its value, or begin to purchase any more merchandise than before. Were therefore the standard fixed to the gold, would not this be an arbitrary and a violent change in the value of the money-unit, and a debasement of the standard?

If, on the other hand, the state should fix the standard to the silver, which we suppose to have risen in its value, would this ever sink the advanced value which the silver coin had gained above the worth of the former standard unit, and would not this be a violent and an arbitrary change in the value of the money-unit, and a raising of the standard?

The only expedient, therefore, as has been said, is in such a case to fix the numerary unit to neither of the metals, but to contrive a way to make it fluctuate in a mean proportion between them; which is in effect the introduction of a pure ideal money of account. This shall be farther explained as we go along.

I have one observation only to make in this place, to wit, that the regulation of fixing the unit by the mean proportion, ought to take place at the instant the standard unit is affixed with exactness both to the gold and silver. If it be introduced long after the market proportion between the metals has deviated from the proportion established in the coin, and if the new regulation is made to have a retrospect, with regard to the acquitting of permanent contracts entered into, while the value of the money unit had attached itself to the lower currency, in consequence of the principle above laid down, then the restoring the money-unit to that standard where it ought to have remained (to wit, to the mean proportion) is an injury to all debtors who have contracted since the time the proportion of the metals began to vary.

This is clear from the former reasoning. The moment the market price of the metals differs from that in the coin, every one who has payments to make, will pay in that species which is rated highest in the coin; consequently, he who lends, lends in that species. If, after the contract, therefore, the unit be carried up to the mean proportion, this must be a loss to him who had borrowed.

From this we may perceive why, in the first article of the preceding chapter, it was said, that there was less inconvenience from the varying of the proportion of the metals, where the standard is fixed to one of them, than when it is fixed to both. In the first case, it is at least uncertain whether the standard or the merchandize-species be to rise; consequently it is uncertain whether the debtors or the creditors be to gain by a variation. If the standard species should rise, the creditors will gain; if the merchandize-species should rise, the debtors will gain; but when the unit is attached to both species, then
the creditors never can gain, let the metals vary as they will: if silver rise, then debtors will pay in gold; if gold rise, debtors will pay in silver. But whether the unit be attached to one or to both species, the infallible consequence of a variation is, that one half of the difference is either gained or lost by debtors and creditors. The invariable unit is constantly the mean proportional between the two measures.

I intended to have postponed the entering upon what concerns the interests of debtors and creditors in all variations of the coin, until I came to treat particularly of that matter; but as it is a thing of the greatest consequence to be attended to, in every proposal for altering or regulating the coin of a nation, it will, perhaps, upon this account, bear a repetition in another place.

II. To render our ideas as distinct as possible, we must keep them simple. Let us now suppose that the metals are perfectly well proportioned in the coin, but that the coin is worn by use. If this be the case, we must either suppose it to be all equally worn, or unequally worn.

If all be equally worn, I think it needs no demonstration to prove, that the money-unit which was attached to the coin, when weighty, (drawing its value from the metals contained in it,) must naturally diminish in its value in proportion as the metals are rubbed away.

If the coin be unequally worn, the money-unit will be variously realised, or represented; that is to say, it will be of different values, according to the weight of the pieces.

The consequence of this is the same as in the disorder of the proportion of the metals: debtors will choose to pay in the light pieces, and the heavy will be melted down. In proportion, therefore, to this disorder, will the value of the unit gradually descend. This was the great disorder in England in 1695; while the standard of the pound sterling was affixed to the silver only, the gold being left to seek its own value.

III. Since the invention of the money wheel, the inaccuracy in the fabrication is greatly prevented. Formerly, when money was coined with the hammer, the mint-masters weighed the coin delivered by the workmen, in cumulo, by the pound troy weight, without attending very exactly to the proportion of the pieces. At present exactness is more necessary, and every piece must be weighed by itself.

It is of very great consequence that the weight and denominations of coin be in exact proportion to that of their current value, which is always relative to the money-unit of account. When any inequality happens there, it is easy to perceive how all the pieces which are above the proportion of their just weight, will be immediately picked up, and melted down, and none but the light ones will remain in circulation.

This, from the principles already laid down, must proportionally diminish the value of the money-unit.

From what has been observed concerning the deviations in the coin from the proportion in the market price of the metals, and from the legal weight, we may lay down this undoubted principle, That the value of the money-unit of account is not to be sought for in the statutes and regulations of the mint, but in the actual intrinsic value of that currency in which all obligations are acquitted, and all accompts are kept.

IV. As I have at present principally in view to lay down
certain principles with regard to money, which I intend afterwards to apply to the state of the British coin; and as these principles are here restrained to the effects which every variation in the coin has upon the value of the unit of money in account, I shall in this place observe only, as to the imposition of coinage.

That coin being necessary in every country where the money-unit is attached to the metals, it must be procured by those who are obliged to acquit their obligations in material money.

If, therefore, the state shall oblige every one who carries the metals to the mint to pay the coinage, the coin they receive must be valued, not only at the price the metals bear in the market, when they are sold as bullion, (or mere metal, of no farther value than as a physical substance,) but also at the additional value these metals receive in being rendered useful for purchasing commodities, and acquitting obligations. This additional value is the price of coinage.

If, therefore, in a country where coinage is free, as in England, this coinage shall come to be imposed, the money-unit continuing to be affixed as before to the same quantity of the metals, ought to rise in its value; that is, ought to become equal to a greater quantity of every sort of merchandize than before; consequently, as the rough metals of which the coin is made are merchandize, like every other thing, the same number of money-units realized, or represented in the coin, ought to purchase more of the rough metals than before: That is to say, that every country where coinage is imposed, bullion must be cheaper than coin.

This proposition would be liable to no exception, were it true that no debt could be exacted but in the nation's coin; because in this case, the creditor would be constantly obliged to receive it at its full value.

But when nations owe to one another, the party debtor must pay the party creditor in his coin: the debtor, therefore, is obliged to sell his own coin for what he can get for it, and with this he must buy of the coin of his creditor's country, in order to pay him with it.

Let us, to avoid abstract reasoning, take an example: and we cannot choose a better than that of England and France. In England, coinage is free, in France it costs 8 2/10 per cent as shall be made out in its proper place.

France owes England 1000 l. sterling. In paying in the market of London, the bullion contained in this sum, either in gold or silver, the debt is paid; because the coining of it costs nothing. Here France acquits her debt cheaper than by sending her own coin as bullion; because the bullion she sends is not worth an equal weight of her coin.

England owes France 20,000 livres. In paying the bullion contained in this sum, England is not quit; she must also pay France 8 2/10 per cent in order to put it into coin.

V. The operation of raising, and debasing the coin is performed in three ways.

First, By augmenting or diminishing the weight of the coin.

Secondly, By augmenting or diminishing the proportion of alloy in the coin.

Thirdly, By augmenting or diminishing the proportion between the money (coin) and the money of account, as if every sixpence were called a shilling, and every twenty six-pences a pound sterling.
The French call this increasing or diminishing the numerary value: and as I think it is a better term than that of raising or sinking the denomination, I shall take the liberty now and then to employ it.

These three operations may be reduced to one, and expressed by one term: they all imply the augmenting or diminishing of the weight of the pure metals in the money-unit of account.

It would require a separate treatise, to investigate all the artifices which have been contrived, to make mankind lose sight of the principles of money, in order to palliate and make this power in the sovereign to change the value of the coin, appear reasonable. But these artifices seem to be at an end, and Princes now perceive that the only scheme to get money, when occasion requires, is to preserve their credit, and to allow the coin, by which this credit is reckoned, to remain in a stable condition. There are still, however, examples of such operations to be met with; for which reason I shall subjoin, towards the end of this book, a particular inquiry into the interest of Princes with regard to altering the value of their coin, which is a synonimous term with that of altering the value of the unit of money.

Chap. VI

How the variations in the intrinsic value of the unit of Money must affect all the domestic Interest of a Nation

We have briefly pointed out the effects of the imperfections of the metals in producing a variation in the value of the unit of account, we must now point out the consequences of this variation.

If the changing the content of the bushel by which grain is measured, would affect the interest of those who are obliged to pay, or who are entitled to receive, a certain number of bushels of grain for the rent of lands; in the same manner must every variation in the value of the unit of account affect all persons who, in permanent contracts, are obliged to make payments, or who are entitled to receive sums of money stipulated in multiples or in fractions of this money-unit.

Every variation, therefore, upon the intrinsic value of the money-unit has the effect of benefiting the class of creditors, at the expence of debtors, or vice versa.

This consequence is deduced from an obvious principle. Money is more or less valuable in proportion as it can purchase more or less of every kind of merchandize. Now, without entering anew into the causes of the rise and fall of prices, it is agreed upon all hands, I suppose, that whether an augmentation of the general mass of money in circulation has the effect of raising prices in general, or not, any augmentation of the quantity of the metals appointed to be put into the money-unit, must at least augment the value of that money-unit, and make it purchase more of any commodity than before; that is to say, if 113 grains of fine gold, the present weight of a pound sterling in gold, can buy 113 pounds of flour; were the pound sterling raised to 114 grains of the same metal, it would buy 114 pounds of flour; consequently, were the pound sterling augmented by one grain of gold, every miller who paid a rent of ten pounds a year would be obliged to sell 1140 pounds of his flour, in order to procure 10 pounds to pay his rent, instead of 1130 pounds of flour which he sold formerly to procure the same sum; consequently by this innovation, the miller must lose yearly ten pounds of flour, which his landlord consequently must gain. From this example, I
think it is plain, that every augmentation of the metals put into the pound sterling, either of silver or gold, must imply an advantage to the whole class of creditors, who by contract are paid in pounds sterling, and consequently must be a proportional loss to all debtors in such contracts, who must pay by the same denomination.

I should not have been so particular in giving a proof of so plain a proposition, had it not escaped the penetration of the great Mr Locke.

In 1695 a proposal was made to the government of England, to diminish the value of the pound sterling by 20 per cent by making a new coinage of all the silver, and by making every shilling 1/5 lighter than before. The author of this project (Mr Lowndes) having given his scheme to the public, was answered by Mr Locke, that this debasing of the value of the money-unit was effectually defrauding all the landed interest of 20 per cent of their rents. Lowndes replied, that silver was augmented 20 per cent in its value, and that therefore the pound sterling, though reduced 20 per cent in its weight of pure silver, was still as valuable as before. This proposition Mr Locke exploded with the most solid reasoning, and indeed nothing could be more absurd, than to affirm, that silver had risen in value with respect to itself. But though Mr Locke felt that all the landed interest, and all those who were creditors in permanent contracts, must lose 20 per cent by Mr Lowndes's scheme, yet he did not perceive (which is very wonderful) that the debtors in these contracts must gain. This led him to advance a very extraordinary proposition, which abundantly proves that the interests of debtors and creditors, which are now become of the utmost consequence to be considered attentively by modern statesmen, were then but little attended to, and still less understood.

We find in the 46th page of Mr Locke's Farther Considerations concerning raising the value of Money, that Mr Lowndes had affirmed in support of his scheme, that this new money would pay as much debt, and buy as many commodities as the then money which was one fifth heavier. Then, adds Mr Locke, 'What he says of debts is true; but yet I would have it well considered by our English gentlemen, that though creditors will lose 1/5 of their principal and use, and landlords will lose 1/5 of their income, yet the debtors and tenants will not get it. It may be asked, who will get it? Those, I say, and those only, who have great sums of weighty money (whereof one sees not a piece now in payments) hoarded up by them, will get it. To these, by the proposed change of our money, will be an increase of 1/5 added to their riches, 'paid out of the pockets of the rest of the nation.'

If the authority of any man could prevail, where reason is dark, it would be that of Mr Locke; and had any other than such a person as Locke advanced such a doctrine, I should have taken no notice of it.

Here this great man, through inadvertency, at once gives up the argument in favour of his antagonist, after having refuted him in the most solid manner: for if a man, who at that time had hoarded heavy 1/5 upon its being coined into pieces 1/5 lighter, Mr money, were to gain Locke must agree with Mr Lowndes, that a light piece was as much worth as a heavy one.

Those who had heavy money at that time locked up in their coffers, would gain no doubt, provided they were debtors; because having, I shall suppose, borrowed 4000 l. sterling in heavy money, and having a like sum borrowed from their coffers, augmented to 5000 l. by Mr Lowndes's plan, they might pay their debt of 4000 l. and retain one thousand clear profit for
themselves. But supposing them to have no debts, which way could they possibly gain by having heavy money, since the 5000 l. after the coinage, would have bought no more land, nor more of any commodities, than 4000 l. would have done before the coinage.

We may therefore safely conclude, that every diminution of the metals contained in the money-unit, must imply a loss to all creditors; and that in proportion to this loss, those who are debtors must gain.

That on the contrary, whatever augmentation is made of the money-unit, such augmentation must be hurtful to debtors, and proportionally advantageous to creditors.

In the preceding chapters, I have laid down, with as much distinctness as I am capable of, the most general principles which influence the doctrine of money, and to these I think every other may be applied.

The combination, however, of these principles with one another, occasions a surprising variety of problems, relating to money, coin, and bullion, which are hard to solve, by the difficulty, merely, of applying them to the rule.

In order therefore to render this inquiry more useful, I shall now apply the principles I have laid down, to the present state of the British coin, and to the resolution of every question which shall occur during the examination of the disorder into which it has fallen.

Book IV
Of Credit and Debts
Part I
Of the Interest of Money

Introduction

I come now to inquire into the principles of credit; a subject already introduced in the the 27th chapter of the second book, where I examined nature of circulation, and pointed out the principles, which direct a statesman when and how to retard or accelerate its activity, according as the political interests of his people may require.

In that chapter the object was, when and how either to extend or restrain the use of credit, according to political circumstances. The inquiry now comes to be, what this credit is; upon what it is founded; what the various species of it are; what are the methods of establishing and extending it, while it is in its infancy and vigour; how to sustain it when it is overstretched; and last of all, how to let it fall as gently as possible, when by no human prudence it can be longer supported.

Many political writers in treating of credit, represent it as being of a very mysterious nature; owing its establishment to a confidence not easily accounted for, and disappearing from the slightest unfavourable circumstances.

That credit, in its fancy, is of a very delicate nature, I willingly allow. as also that we have many examples which confirm the sentiments, of those who believe it to contain, in itself, something very mysterious: but this proves no more, than that, in such cases, credit (as I consider it, and as it will appear really to be) has not been properly established. The cause of
confidence has had nothing in it but opinion, and when this is
the case, credit is but a shadow; and like a thin vapour, it may
be dissipated by the smallest breath of wind.

They all agree that credit is no more than confidence, but
they do not examine how this confidence is to be established on a
solid foundation.

The operations of credit are incompatible with the involved
contracts of the law, and with the spirit of intricate
land-securities. The policy of such contracts was analogous to
the manners of the times which gave them birth. Trade is a late
refinement, in most nations of Europe, and industry is still a
later: the beginnings of both are slow, imperceptible, and
obscure. The instruments by which they are promoted, are the
lower classes of a people; the interest of the individuals who
compose them, may appear to some, to be below the attention of a
statesman; and yet it is by the accumulation of their industry
only, that this huge fabric is erected.

To establish that credit, which is necessary for carrying on
so great a work, a statesman must lend his hand. He must give a
validity to mercantile obligations, which have no name in his
law-books: he must support the weak against the strong: he must
reform the unwieldy procedure of courts of justice: he must
facilitate the sale of property: he must establish the
credibility of merchants' books regularly kept: he must
discourage frauds, and support fair dealing.

When such a plan is once established, confidence will find a
basis in the property of every individual who profits by it. When
it is not established, credit will appear like a meteor:
intelligent and crafty men will avail themselves of it, and
thereby dazzle the eyes of the public, with gilded schemes of
opulence and prosperity: mankind will fly to industry, confidence
will be established; but as there will be no method of
determining the bounds of this confidence, the promoters of the
scheme will profit of the delusion: confidence will vanish; and
the whole will appear to have been a mystery, a dream. Is not
this a representation of many projects set on foot since the
beginning of this century? What were the South Sea's and
Mississippi's, but an abuse of confidence? Had ever the cause of
confidence been examined into, would ever such extravagant ideas
have arrived at the height they did?

Credit therefore must have a real, not an imaginary object to
support it; and although I allow that in all operations of
mercantile credit, there must be something left to chance and
accident; yet this chance must bear a due proportion to the
extraordinary profits reasonably to be expected from the
undertaking.

From this it appears, what an useful speculation it is to
inquire properly into the nature of credit; to deduce with
accuracy the principles upon which it is founded; to banish
mystery from plain reason; to shew how every the most surprizing
effect of credit, whether tending to the advantage, or to the
hurt of society, may easily be accounted for; and, which is the
most useful of all, to point out how such effects may be
foreseen, so as either to be improved or prevented.

In going through so extensive a subject, as a deduction of
the principles of credit, method is very necessary; and when a
detail is long, subdivisions are very convenient. I have, upon
this account, divided this book into four parts.

The first shall be set apart for deducing the principles
which regulate the rate of interest; because this is the basis of
the whole.
The second, for the principles of banking; under which I shall have an opportunity to unfold the whole doctrine of domestic circulation.

The third, for those of exchange, which is equally well calculated for carrying on foreign circulation; and as to what regards debts, and the borrowing of money, with all the consequences which they draw along with them, these important objects will furnish ample matter for

The fourth and last part, which shall treat of the principles of public credit.

These things premised, I proceed to the definition of credit.

Chap. I

What Credit is, and on what founded

Credit is the reasonable expectation; entertained by him who fulfils his side of any contract, that the other contracting party will reciprocally make good his engagements.

To illustrate this, we may say with the lawyers, that as all contracts may be reduced under one of the following heads, Do ut des, do ut facias; facio ut des, facio ut facias: so he who actually gives or performs his part, is the creditor, or the person who gives credit; and he who promises only to give or to perform, is the debtor, or the person who receives it.

Credit, therefore, is no more than a well established confidence between men, in what relates to the fulfilling of their engagements. This confidence must be supported by laws, and established by manners. By laws, the execution of formal contracts may be enforced: manners, alone, can introduce that entire confidence which is requisite to form the spirit of a trading nation.

Credit, in its fancy, must be supported by statutes, and enforced by penalties; but when it is once well established, every recourse had to law, is found to wound the delicacy of its constitution. For this reason we see, that in certain nations,(1*) the legislator wisely excludes the ordinary courts of justice from extending their rigid jurisdiction over mercantile engagements: they leave to the prudence and good faith of men versed in commerce, to solve the difficulties which result from such transactions; because they are to be interpreted more according to the constant fluctuation of manners, than to the more permanent institutions of positive law.

The more the jurisdiction of the statesman is limited; or, in other words, the less the power of any sovereign is restrained, by the laws and constitution of the state he governs, the more it behoves him to avoid every step of administration which can make his authority be felt in cases where credit is concerned. If he should happen, for example, to be a debtor himself, he must take good care never to appear in any other light to his creditor. The moment he puts on the sovereign, the same moment all confidence is lost. For these reasons, we have hitherto had few examples (I might perhaps have said none at all) where credit has been found permanently solid, under a pure monarchy.

But we must observe, at the same time, that the stability of credit is not incompatible with this form of government. At certain times, we have seen credit make a surprising progress in France; and it has never suffered any check in that state, but from acts of power, which I think have proceeded more from inadvertency, and want of knowledge, than from a formed design of
defrauding creditors. These may be looked on as blunders in administration; because they have constantly disappointed the purpose for which they were intended. Let me prove this by some examples.

The arret of 21 May 1720, (of which we shall give an account hereafter), destroyed in one day the whole fabric of credit, which had been erected in France during the course of three years; and which in so short a time had mounted to a height hardly credible. I say, that in one day this inadvertent step (for no real injury was intended) destroyed the credit of 2,697,048,000 livres of bank notes, (above 120 millions sterling) and of 624,000 actions of the East India company, which (reckoned at 5000 livres apiece, the price at which the company had last sold them) amount to 3,120,000,000 livres, or above 140 millions sterling. Thus at one blow, and in one day, 260 millions sterling of paper currency, payable to bearers, were struck out of the circulation of France; by an useless and inadvertent act of power, which ruined the nation, and withered the hand which struck it: an event too little understood, and too little remembered in that kingdom.

This plainly appears from their late conduct; for in the end of 1759, at a time when the credit of France was in so flourishing a situation as to have enabled her to borrow, that very year, near 200 millions of livres; and when there was a prospect of being able to borrow, in the year following, a far greater sum, the shutting up what they called their caisse d'amortissement, for the sake of withholding 32 millions of livres interest due to the creditors, struck all credit with foreigners dead in one instant.

These examples shew what fatal consequences follow a misjudged exercise of power in matters of credit.

On the other hand, the rapid progress of credit in France before the Missisippi, and the stability of it from 1726 to the year 1759, abundantly proves, that no two things are more compatible than monarchy and confidence. All that is wanting is the establishment of one maxim in government; to wit, that the King's power is never to extend so far, as to alter the smallest article of such contracts as have been made with those who have lent money for the service of the state.

Maxims in government bind the monarch and the legislature, as laws bind subjects and subordinate magistrates: the one and the other ought to be held inviolable, so far as they regard credit; or confidence will be precarious.

What has supported the credit of Great Britain, but the maxim constantly adhered to, that the public faith pledged to her creditors is to be inviolable?

Does any one doubt, but the legislature of this nation may sponge out the public debts, with as much ease as a King of France? But in the one kingdom, the whole nation must be consulted as to the propriety of such a step; in the other, it may be done at the instigation of a single person, ignorant of the consequences: but I hope to make it appear, before the conclusion of this book, that it is impossible to form a supposition, by which a state can be benefitted by deliberately departing, for one moment, from the faith of her engagements. A national bankruptcy may no doubt happen, and become irreparable; but this must be when the state is emerging from a signal calamity, after having been involved in ruin and confusion.

Confidence, then, is the soul and essence of credit; and in every modification of it, we shall constantly find it built on this basis: but this confidence must have for its object a
willingness and a capacity in the debtor to fulfill his obligations.

Chap. II

Of the Nature of Obligations to be performed, in consequence of Credit given; and of what is meant by the terms regorging and stagnating of money

We have already said, that all obligations contracted with a view to be performed in future time, consist in doing or giving something in consideration of something done or given.

When actions only are stipulated in contracts, credit (in a strict acceptation of the term) is little concerned; because no adequate security can be given for performing an action: such contracts stand wholly upon the willingness and capacity of acting, which depend more upon the person than upon the faculties of the debtor. To supply this defect, we see penalties usually stipulated in such cases; which reduce those contracts to an alternative obligation of either doing or giving.

We shall therefore throw out the consideration of the first altogether, as being foreign to our purpose; and adhere to the later, which is the true object of credit. Again:

In all obligations to give any particular thing, there is constantly implied an alternative also; to wit, either the thing stipulated, or the value (id quod interest, according to the lawyers): this must be relative to money; which is the common price of all things in commerce among men.

Thus we have brought credit to the object under which we are to consider it, viz. the obligation to pay money, either for value received, or for some consideration relative to the parties, which may be the just ground of a contract.

Credit and debts are therefore inseparable, because they necessarily imply each other; and very properly come to be examined together in this book.

When money is to be paid at a distant period of time, the obligation may either be, for one precise sum; or for that sum with interest, during the interval between contracting and fulfilling the obligation.

The lending of money without interest, was very common before the introduction of trade and industry. Money then was considered as a barren stock, incapable of producing fruit; and whenever the quantity of it, in any country, exceeded the uses of circulation, the remainder was locked up in treasures: in which case, the exacting of interest for it appeared unreasonable.

Things are now changed: no money is ever locked up; and when borrowed, the regular payment of interest for it, is as essential to the obtaining of credit, as the confidence of being repaid the capital. These periodical payments are a constant corroboration of this confidence; so that it may be said with truth, that he who can give good security, to pay to perpetuity, a regular interest for money, will obtain credit for any sum, although it should appear evident, that he never can be in a capacity to refund the capital.

The reason of this may be gathered from the principles already deduced, and from the plan of our modern oeconomy.

We have said in the second book, that the current money of a country is always in proportion to the trade, industry, consumption, and alienation, which regularly take place in it; and when it happens that the money already in the country is not sufficient for carrying on these purposes, a part of the solid
property, equal to the deficiency, may be melted down (as we have called it) and made to circulate in paper: that as soon again as this paper augments beyond this proportion, a part of what was before in circulation, must return upon the debtor in the paper, and be realized anew.

Let us now consider what is understood by realized. By this term is meant, that the regorging paper, or that quantity of currency which a nation possesses over and above what is necessary for its circulation, must be turned into some shape whereby it may produce an income; for it is now a maxim, that no money is to be suffered to remain useless to the proprietor of it. (2*)

When this regorging or stagnating paper then comes upon the debtor in it, if he should pay the value of it in hard specie, how would the condition of the creditor be improved?

We suppose the credit of the paper equal to the credit of the coin within the country. We also suppose that the paper has so stagnated in the hands of the bearer, that he can neither lend it, or purchase with it any species of solid property, within the country, capable to produce an income: for if any way of disposing it usefully can be found, this circumstance will prove that circulation is not overstocked at that time; consequently, the money does not regorge. But let us suppose that it does regorge: then he must either oblige the debtor in the paper to pay in coin, that he may lock it up in his coffer (as was the case of old); or he must send his coin to other countries, where circulation is not fully stocked, and where an income may be bought with it. This constantly happens when circulation is either overstocked, or when the quantity of circulation begins to diminish in a country.

Let me next suppose, that in a country overstocked with money, a sudden demand for it, far beyond the ordinary rate of circulation, shall occur: suppose a war to break out, which absorbs, in a short time, more money than, perhaps, all the coin and all the paper can supply. The state upon this occasion imposes a tax, which, let me suppose, may produce a sum equal to the interest of the money required. Is it not very certain, that such persons who found a difficulty in placing their regorging capitals, will be better pleased to purchase a part of this annual interest, than to lend it to any person who might pay it back in a short time; by which repayment the lender would again be thrown into the same inconvenience as before, of finding a proper out-let for it? This is a way of realizing superfluous money, more effectual than turning it into gold or silver.

When I speak, therefore, of realizing paper money, I understand either the converting of it into gold and silver, which is the money of the world; or the placing of it in such a way as to produce a perpetual fund of annual interest.

Were public borrowing, therefore, to work the effect of bringing the money in circulation below the proportion required for carrying on alienation, trade, etc. then an obligation to repay the capital would be necessary, and complaints would be heard against the state for not paying off their debts; because thereby the progress of industry would be prevented. But when the operations of credit are allowed to introduce a method of creating money anew, in proportion as trade and industry shall demand it, then the state has no occasion to pay back the capitals; because the public creditors enjoy far better conditions in their annual income, than if their capitals were refunded.

Let me illustrate this by an example.
We must take it for granted, that in every nation in Europe, there is a sum in circulation, nearly equal to the alienation, trade, etc. which goes on actually at the time. We must also take it for granted, that the amount of all debts whatsoever, public and private, paying interest to the class of creditors, is every where a very great sum: now let us suppose, that the class of debtors should be enabled (no matter by what means) to pay off what they owe, in coin newly acquired; would not, by the supposition, a sum of the old currency nearly equal to this coin newly acquired, immediately fall into stagnation, and would it not be impossible to draw any income from this stagnated coin? This was exactly the case of old. The coin far exceeded the uses of circulation, and stagnated in treasures. Wars brought it out; because then circulation augmented; peace again cutting off these extraordinary demands, the coin stagnated again, and returned to the treasures.

What is the case at present?

Money and coin are never found to surpass the uses of circulation in commercial countries. When war comes, which demands an extraordinary supply, recourse is had to borrowing upon interest; not to treasures: and the desire of purchasing this interest, which we call an annuity, draws treasures even from the enemies of those nations who have the best credit. Again, at the end of a war, in place of an empty treasury, as was the case of old, we find a huge sum of public debts. As oeconomy filled the treasury then, so oeconomy must pay off the debts now.

From what has been said, it plainly appears, that interest is now become so absolutely essential to credit, that it may be considered as the principal requisite and basis on which the whole fabric stands: we shall therefore begin by examining the origin and nature of interest, and also the principles which influence the rate, and regulate the fluctuations of it.

Chap. III

Of the Interest of Money

I shall leave it to divines and causists to determine how far the exacting of interest for money is lawful, according to the principles of our religion.

It was forbidden to the Jews, by the laws of Moses, to lend at interest to their brethren, but it was permitted to lend to strangers. Deut. chap. xxiii, ver. 19, 20. This is one of the wisest political institutions to be met with in so remote antiquity, as we shall hereafter explain.

In the primitive ages of christianity, the lending of money at interest was certainly reputed to be unlawful on most occasions. That spirit of charity to all who were in want, was so worked in with the doctrine of our religion, that a borrower was constantly considered to be in that situation. Trade was little known; trading men were generally ill looked upon; and those who debated so far from the spirit of the times, as to think of accumulating wealth by the use of their money, commonly degenerated into usurers.

In the middle centuries, when a mistaken zeal animated christianity with a most ungodly thirst for the blood of infidels, the Jews were, in every nation in Europe, almost the only money-lenders. This circumstance still more engaged the church to dart her thunder against this practice; and the loan upon interest never took root among christians, until a spirit of trade and industry sprung up in Italy in the time of the
Lombards, and from thence spread itself, through the channel of
the Hans-towns, over several nations.

Then the church began to open her eyes and saw the expediency
of introducing many modifications, in order to limit the general
anathema which she had denounced against the whole class of
money-lenders. At one time it was declared lawful to lend at
interest, when the capital shared any risque in the hands of the
borrower; at another, it was found allowable, when the capital
was not demandable from the debtor, while he paid the interest;
again, it was permitted, when the debtor was declared by sentence
of a judge, to be in mora in acquitting his obligation; at last,

it was permitted on bills of exchange. In short, in most Roman
catholic countries, interest is now permitted in every interest
for case almost, except in obligations including a stipulation of
sums demandable at any time after the term of payment; and it is

as yet no where considered to be so essential to loan, as to be
due on all debts whatsoever; not even upon obligations payable on
demand.

Expediency and the good of society (politically speaking) are
the only rule for judging, when the loan upon interest should be
permitted, when forbidden. While people borrowed in order only to
procure a circulating equivalent for providing their necessaries,

until they could have time to dispose of their effects; and while
there was seldom any certain profit to be made by the use of the
money borrowed, as now, by turning it into trade, it was very
natural to consider the lender in an unfavourable light; because
it was supposed that his money, had it not been lent, must have
remained locked up in his coffers. But at present, when we see so
many people employed in providing stores of necessaries for
others, which, without money, cannot be done; were the loan upon
interest forbidden, it would have the effect of locking up the
very instrument (money) which is necessary for supplying the
wants of the society. The loan, therefore, upon interest, as
society now stands composed, is established, not in favour of the
lenders, but of the whole community; and taking the matter in
this light, no one, I suppose, will pretend that what is
beneficial to a whole society should be forbidden, because of its
being proportionably advantageous to some particular members of
it.

If it be then allowed, that the loan upon interest is a good
political institution, relatively to the present situation of
European societies, the next question is, to determine a proper
standard for it, so as to avoid the oppression of usurers, on one
hand, and on the other, to allow such a reasonable profit to the
lender, as may engage him to throw his money into circulation for
the common advantage.

This question leads us directly to the examination of the
principles which regulate the rate of interest; and if we can
discover a certain rule, arising from the nature of things, and
from the principles of commerce, which may direct a statesman how
to establish a proper regulation in this matter, we may conclude
with certainty concerning the exact limits, between unlawful and
pinching usury, exacted by a vicious set of men, who profit of
the distress of individuals; and that reasonable equivalent which
men have a right to expect for the use of their money, lent for
carrying on the circulation of trade, and the employment of the
lower classes of a people who must subsist by their industry or
labour.

Chap. IV
Of the Principles which regulate the Rate of Interest

We must now recall to mind the principles of demand and competition, so fully deduced in the second book, in order to answer the following question, viz.

What is the principle which regulates, at all times, the just and adequate rate of interest for money, in any particular state?

I answer, That at all times, there is in every state a certain number of persons who have occasion to borrow money, and a certain number of persons who desire to lend: there is also a certain sum of money demanded by the borrowers, and a certain sum offered to be lent. The borrowers desire to fix the interest as low as they can; the lenders seek, from a like principle of self-interest, to carry the rate of it as high as they can.

From this combination of interests arises a double competition, which fluctuates between the two parties. If more be demanded to be borrowed, than there is found to be lent, the competition will take place among the borrowers. Such among them as have the most pressing occasion for money, will offer the highest interest, and will be preferred. If, on the contrary, the money to be lent exceed the demand of the borrowers, the competition will be upon the other side. Such of the lenders, as have the most pressing occasion to draw an interest for their money, will offer it at the lowest interest, and this offer will be accepted.

I need not launch out into a repetition of what has been said concerning the influence of double competition, in fixing the price of commodities; as I suppose these principles to be now well understood, and well retained, by those who read this chapter; I shall therefore confine myself here to what is peculiar to the demand for money.

The price of commodities is extremely fluctuating: they are every one calculated for particular uses; money serves every purpose. Commodities, though of the same kind, differ in goodness: money is all, or ought to be all of the same value, relatively to its denominations. Hence the price of money (which is what we express by the term interest) is susceptible of a far greater stability and uniformity, than the price of any other thing.

We have shewn in the 28th chapter of the second book, in examining the principles which regulate the price of subsistence, that the only thing which can fix a standard for it, is frequent and familiar alienation. The same holds true of money. Were we to suppose a state, where borrowing and lending are not common, and where the laws fix no determinate interest for money, it would hardly be possible to ascertain the rate of it at any time. This was the case of old.

Before the reign of Henry VIII of England, in 1545, there was no statute regulating the rate of interest, in that kingdom. The reason is very plain. In those days there was little circulation, and the borrowing of money upon interest was considered as a mortal sin. The consequence of this was, that usurers, having nothing but conscience to restrain them, carried the price of their money to a level with the pressing occasion of spendthrifts, while others, from friendship, lent for no interest at all. Henry fixed the rate of interest at 10 per cent and his contemporary, Francis I of France, in 1522, (who was the first who borrowed money in a regular manner upon the townhouse of Paris) fixed the interest at the 12th penny, that is, at 8 1/3 per cent.

In those days, it was impossible for a statesman to determine
any just rate for interest; and accordingly we find history filled with the extortion of usurers, on one hand, and the violence and injustice of princes and ministers towards those who had lent them money, on the other: was it then any wonder, that lending at interest was universally cried out against? It really produced very little good, and was the cause of manifold calamities to a state. When the Prince borrowed, it was in the most urgent distress: those who had money, foresaw the danger of being plundered if they refused to lend it to him, and of being defrauded as soon as the public distress was over: for this reason they exacted the most exorbitant interest: the consequence was, that the people were loaded with the most grievous taxes, and the tax-gatherers were the Prince's creditors, to whom such taxes were assigned.

In our days, trade, industry, and a call for money, enable the borrower to enrich himself, to supply the wants of the state, and to pay his interest regularly.

If we compare the two situations, we shall find every disadvantage attending the former, and every advantage connected with the latter.

Without good faith their can be no credit; without credit there can be no borrowing of money, no trade, no industry, no circulation, no bread for the lower classes, no luxury, not even the conveniences of life, for the rich. Under these circumstances, there can be no rule for the rate of interest; because borrowing cannot be frequent and familiar.

In proportion, therefore, as borrowing becomes frequent and familiar, the rule for fixing the rate of a legal interest becomes more practicable to a statesman. Let me make a step farther.

We have said, that it is the fluctuation of the double competition between borrowers and lenders, which occasions the rise and fall of the rate of interest; I must now point out the principles which occasion this fluctuation.

Were the interests of trade and industry so exactly established, as to produce the same profit on every branch of them, the money borrowed for carrying them on, would naturally be taken at the same rate; but this is not the case: some branches afford more, some less profit. In proportion, therefore, to the advantages to be reaped from borrowed money, the borrowers may offer more or less for the use of it.

Besides the class of men who borrow in order to profit by the loan, there is another class, who borrow in order to dissipate. The first class never can offer an interest which exceeds the proportion of their gains: the second class, finding nothing but want of credit to limit their expence, become a prey to usurers. Were it not then upon account of these last, there would be no occasion for a statute to regulate the rate of interest. The profits on trade would strike an average among the industrious classes; and this average would fall and rise, in proportion to the flourishing or decay of commerce.

Let us next examine the principles which prevent the monied men from committing extortions, and which oblige them to lend their money for that rate of interest which is in proportion to the profits upon trade and industry.

In every country there is found a sum of money (that is, of circulating value, no matter whether coin or paper) proportioned to the trade and industry of it. How this sum is determined, and how it is made to augment and diminish in proportion to industry, we have already explained in the 26th chapter of the second book: we are now to examine some of the consequences which result from
the accidental stagnation of any part of it to the prejudice of alienation; and we must shew how the loan upon interest is the means of throwing it again into circulation.

There are in every state some who spend more, and some who spend less than their income. What is not spent must stagnate; or must be lent to those who spend more than the produce of their own funds. Were the first class found so to preponderate, as to require more money to borrow than all that is to be lent, the consequence would be, to prevent the borrowing of merchants; to raise interest so high as to extinguish trade; and to destroy industry; and these resources coming to fail, foreign commodities would be brought in, while exportation would be stopped, money would disappear, and all would fall into decay.

This, I believe, is a case which seldom happens; because the rise of interest (as states are now formed) has so much the effect of depreciating the value of every species of solid property, that spendthrifts are quickly stripped of it, by the growing accumulation of that canker worm, interest; their ruin terrifies many from following so hurtful an example, and their property falling into the hands of the other class, who spend less than their income; these new possessors introduce, by their example, a more frugal set of manners. This may be the case in countries where trade and industry have been introduced; and where the operations of credit have been able to draw into circulation a large quantity of solid property, according to the principles deduced in the chapter above referred to. But in nations of idleness, who circulate their coin only, and who are deprived of the resource of credit; high interest prevents them from emerging out of their sloth, and the little trade they have, continues to produce great profits, which are incompatible with foreign commerce: this may, indeed, make the coin they have to circulate for home-consumption, but it can bring no augmentation of wealth from abroad.

On the other hand, when trade and industry flourish, and when a monied interest is formed, in consequence of the melting down of solid property, and still more in consequence of a State’s contracting great debts; were the money-lenders to attempt to raise the rate of interest to the standard of the spendthrift, the demands of trade, etc, would soon be cut off: the stagnation would then swell so fast in their hands, that it would in a manner choak them, and in a little time interest would fall to nothing. Whereas by contenting themselves with the standard of trade, the largest supplies (provided for the borrowers) easily find a vent, without raising the rate of interest so high as to be hurtful to any interest within the state.

Add to this, that the advantage of realizing, into lands, so unstable a property as money, must naturally throw the proprietors of the money into a competition for the lands which dissipation brings to market; thus, by rising the value of lands, the monied men, with their own hands, defeat the consequences of the dissipation of spendthrifts, and hurt their own interest, to wit, the rise of the price of money. From a combination of these circumstances, lenders become obliged to part with their money at that rate of interest which is the most consistent with that good of commerce.

We have hitherto preserved our combinations as simple as possible. We have suggested no extrinsic obstacle to borrowing and lending. If money be to be lent, and if people be found who incline to borrow, we have taken it for granted, that circulation will go on; and that the stagnations in the hands of the lenders, will find a ready vent by the dissipation of the other class: we
must now make still a step farther.

The spendthrifts must have credit; that is, they must have it in their power to repay with interest what they have borrowed: any impediment to credit, will have the effect either of diminishing the demand for money, and consequently of lowering the rate of interest, or of introducing unlawful usury. If we suppose the rate of interest well determined, and usury prevented by a regular execution of good laws, it is very certain, that a statesman by hurting the credit of extravagant people, will keep the rate of interest within due bounds.

If, therefore, the laws of any country, in our days, appear defective, as to the regulation of securities for money lent upon the mortgage of solid property, while the rate of interest stands higher than is consistent with the good of trade, and with public credit; we should be slow in finding fault with such a defect. The motives of statesmen lie very deep; and it is not always proper to explain them. An example of such defects are entails upon lands, and the want of proper registers for mortgages.

Did the dissipation of landed men tend to promote foreign trade, such clogs would be pernicious; but if the tendency of dissipation be to promote domestic luxury only, and thereby to raise the price of labour and industry, the case is widely different. This observation is merely incidental: our object at present extends no farther than to shew, that the dissipation of landed men, and the credit they have to borrow money, influence, not a little, the rate of interest in every modern state.

These are the general principles which, arising from things themselves, without the interposition of a statesman, tend to regulate the rate of interest in commercial nations.

Chap. V

Of the Regulation of Interest by Statute

From the principles deduced the preceding chapter, we have seen how, without the aid of any law, the interest of money, in a trading nation, becomes determined, from natural causes, and from the irresistible effects of competition.

But as there is no country in the world so entirely given to commerce, as not to contain great numbers of people, who are totally unacquainted with it, some regulation with respect to the rate of interest becomes necessary in order to restrain, on one hand, the frenzy of those, who, listening to nothing but the violence of their passions, are willing to procure money at any rate for the gratification of them, let the political consequences of their dissipation prove ever so hurtful to the state; and on the other, to protect those who, from necessity, may be obliged to submit to the heavy oppression of their usurious creditors.

Laws restraining usury, are directly calculated for the sake of those two classes, not engaged in commerce, and indirectly calculated for commerce itself; which otherwise might receive a wound through their sides.

In entering upon the subject mentioned in the title of this chapter, I think we may agree in this, that hitherto all regulations made concerning interest, have been calculated either for bringing it down, or for preventing its rise. The distress which may come upon a state, by its falling too low, is a phaenomenon which has not yet manifested itself in any modern state, by any symptom I can at present recollect.

Now if it be true, as I think it has been proved, that the
operations of demand and competition work irresistible effects in
determining the rate of interest in commercial states; the
statesman who is about to make a regulation, must keep these
principles constantly in his eye.

If we examine the writings of those who have treated of this
subject with intelligence (among whom, I think, Sir Josiah Child
has a right to stand in the foremost rank), we shall find very
little attention bestowed upon that most necessary and ruling
principle, competition.

He lays it down as an axiom, that low interest is the soul of
trade, in which he is certainly right; but he seems to think,
that it is in the power of a legislature, by statute, to bring
interest down to that level which is most advantageous to trade;
and in this I differ from him. I must do him the justice to say,
that he no where directly affirms this proposition; but by
suggesting none of the inconveniences which may follow upon an
arbitrary reduction of interest by statute, he leaves his reader
at liberty to suppose, that the lowering of it is solely in the
hands of a statesman.

It is very plain, from the history he has given us of the
successive rates of interest in England, from 10 to 6 per cent
that without the interposition of statutes, such diminutions
would not, in that period, have taken place, from the principle
of competition: but I am not so clear that, at this time, when
trade is so well understood, and credit so generally established
in many nations of Europe, that a like administration would work
effects equally advantageous.

It is with great diffidence I presume to differ from Child
upon this subject; and I find a sensible satisfaction in
perceiving that upon the whole, my principles bring me so very
near to his sentiments on this matter.

The strong arguments in favour of Child's opinion, are
grounded upon facts. He says, that when interest was brought down
by statute, 1625, from 10 to 8 per cent instead of producing any
bad effect, it had that of bringing it still lower immediately
afterwards; and the same thing happened, anno 1650, when it was
reduced a second time by statute, from 8 to 6 per cent, at which
rate it stood at the time he wrote. These facts I give credit to,
and shall now account for them, from the consequences of sudden
revolutions.

When a law is made for the reduction of interest, all debtors
immediately profit by it. Upon this, the creditors must either
submit, or call in their capitals. If they submit, land
immediately rises in its value. If they call in their capitals,
they must have an outlet for lending them again, beyond the
limits of the jurisdiction of the legislature. Now this outlet
was not then to be found; because credit was no where well
established, except in Holland, where interest was still lower.

They were, therefore, obliged to submit, and thus interest
was violently brought down by statute; and a great advantage
resulted from it to the commercial interests of England.

The subsequent fall of interest, in the natural way, is thus
easily accounted for.

The consequence of lowering the interest, was, that the price
of land rose several years in purchase: the landed men, who had
long groaned under the heavy interest of 10 per cent finding
their lands rise from 12 years' purchase to 15, upon reducing the
interest to 8 per cent sold off part of their lands, and cleared
themselves. The natural consequence of this was, to make money
regorge in the hands of the monied men; to diminish the number of
borrowers; and consequently, to bring the rate of interest still
lower.

One sudden revolution produces another. When interest is brought down by statute, the price of land must rise by a jerk; and landed men will suddenly profit of the change in their favour. When it falls gently, by a natural revolution in the state of demand, the effects are more insensible; the sharper sighted only profit of it; others, from expectation of a still greater rise in the price of their lands, neglect to sell in the proper point of time; and may perhaps be disappointed from a new fluctuation in favour of money. This is at present actually the case in Great Britain, since the peace of 1762. I write in 1764.

These facts speak strongly in favour of Child’s opinion, namely, that it is expedient to have recourse directly to the statute, whenever there is a prospect of advancing the interests of trade by a reduction of interest.

It is impossible to reply to matters of fact: all, therefore, I have to allege in favour of my own opinion, is, that it is more consistent with the very principles in which both Child and I agree; it implies no sudden revolution, and will, in a short time, operate the same effect.

The method of proceeding, according to my principles, is shortly this:

Since it is agreed on all hands, that low interest is the soul of trade, and the firmest basis of public credit; that it rises in proportion to the demand of borrowers, and sinks in proportion as money is made to regorge in the hands of the monied interest;

The statesman should set out by such steps of administration as will discourage borrowing in those who employ their money in prodigality and dissipation, as far as may be consistent with the interest of the lower classes employed in supplying home consumption, according to the principles laid down in the second book. He should abstain from borrowing himself, and even from creating new outlets for money, except from the most cogent motives. By this he will, in a short time, gently reduce the rate of interest. Then by statute he may bring it down a little, but not so very low as the foregoing operations may have reduced it; contenting himself with having farther restricted the extent of the ordinary fluctuations.

As for example: let us suppose interest limited by law to 5 per cent. and that by good management the state may be enabled to borrow easily at 3 per cent. I believe there would result a notable advantage, in reducing the legal rate to 4 per cent and were it brought down to 3 per cent there might follow a very great inconvenience to landed men, in case a war should suddenly occasion a revolution in favour of money.

The difference then between Child and me, is, that I am more scrupulous than he, in introducing restraint into political oeconomy; and my only reason against applying the statute, as he proposes, is for fear of the immediate bad effects which might follow (in many ways impossible to be foreseen) upon a sudden and violent revolution, in a point so excessively delicate as public credit.

In his days, credit was not so well established, nor was it stretched as at present: it was more accustomed to violent shocks, and could bear a rougher treatment. But in order to come the better to a thorough knowledge of this matter, let us examine what might be the consequence, if Great Britain should, at this time, bring down, by statute, the rate of interest below the level of the stocks, which I take to be the best rule for determining the present value of money; and this is also the best
method of examining the expediency of Child's method of reducing interest, under the present state of all our political circumstances.

Chap. VI

What would be the Consequence of reducing, by a British Statue, the legal Interest of Money below the present level of the Stocks?

When Great Britain borrows money upon the public faith, the rate of interest is always stipulated, and these stipulations must be religiously fulfilled, or credit will be at an end.

The regulations then proposed to be made, must refer to contracts of loan entered into by private parties only.

The current value of money, I think, is best to be determined by the price of stocks. If a 4 per cent sells at par, money may be said to be then at 4 per cent. If the same stock fall to 89, then the value of money rises to near 4 1/2: if the same stock rise to 114, then the value of money falls to about 3 1/2; and so in proportion.

According, therefore, as stock is found to rise, the price of money falls, and vice versa.

Suppose, then, the price of money to be at 4 per cent and that government should pass a law, forbidding any man to lend at above 3 per cent what would be the consequence? This is exactly the expedient proposed by Child: money then was at 6 per cent and he proposes, by a law, to bring it, all at once, to 4 per cent without alleging that money was then commonly got by private convention at so low a rate.

Would not the consequence be, that the creditors of private people would demand their money, in order to get 4 per cent in buying stock, and would not this additional demand for stocks make them rise? I answer in the affirmative, unless money could be employed abroad, so as to produce at least 4 per cent to the lenders, free of all charge of commission, etc. If it could not, I have little doubt, but that money would soon fall to the legal interest of 3 per cent land would rise to 40 years purchase; and landed men would profit of the rise, as Child says was the case in his time. The whole inconvenience would be limited to the immediate effects of the sudden revolution; which would occasion so great a demand upon the landed interest for the capitals due by them as to reduce them to an utter incapacity of answering it. This might be, in some measure, prevented, by a clause in the act, allowing a certain time for the liquidation of their debts. But who will pretend to foretell the immediate consequences of so great a stagnation of credit, and borrowing on land security? The purses of all monied people, would, for some time at least, be fast shut against their demand. What a shock again, would this be to all inland trade, what a discouragement to all the manufacturing interest, what distress upon all creditors for accounts furnished, and upon those who supply daily wants! I think, that although in a year or two, the first effects might come to disappear, and a notable advantage result, in the main, to the commercial interest of Great Britain, yet the distress in the interval might prove so hurtful, as to render it quite intolerable. The common people who live by the luxury of the rich, in the city of London, and who are constantly actuated by the immediate feelings of present inconveniences, might lose all patience; and being blown into a ferment, by the address of the monied interest (whose condition would be made to suffer by the
scheme) might throw the state into confusion, and even impress the nation with a belief, that high interest for money, instead of being hurtful, was essential to their prosperity.

I have said above, that if we suppose that the money drawn from debtors, could not be placed abroad, free of all deductions, at a rate equal to the then value of money (supposed for the sake of an example, to be at 4 per cent), then money would fall to 3 per cent and the stocks would rise in proportion.

But let us suppose (what perhaps is the matter of fact) that the extensive operations of trade and credit, do actually fix an average for the price of stocks, from the value of money in other nations in Europe. Would not then the consequence of bringing down the rate of legal interest, below this level, be, to send out of the kingdom all the money now circulating on private security, real and personal? Would not this destroy all private credit at one blow? Would it not have the effect of preventing, among individuals, the loan upon interest altogether? What would become of the bank of England, and all other banks, whose paper in circulation is all in the hands of private people? Is not every man who has a bank note, a creditor on the bank? And would not the same interest which moved other creditors to exact their debts, under such circumstances, also move many holders of bank notes to demand payment of them? Would not a run of this nature, for a few weeks only, throw the whole nation into the most dreadful distress? May we not even suppose, that upon such an occasion, the monied interest (from a certainty of disappointing the intention of government in making the law) might form a concert among themselves to lock up their money, even although it should remain dead in their hands for a few months? What would then become of the improvement of land? Is there an industrious farmer anywhere to be met with, who does not borrow money, which he can so profitably turn to account upon his farm, even though he receive it at the highest legal interest? These and many more inconveniences might manifest themselves, were government to force down the value of money, beyond the ordinary operations of demand and competition: and to what purpose have recourse to authority, when it is most certain, that without any such expedient the same end may be compassed?

If it be true, as I believe it is, that the funds, or public debts of a state where credit is well established, are commonly negotiated abroad; there must, from such negotiations result an average for the value of money, by the operations of credit over the commercial world: and if it be true, that no law can be framed so as to restrain mercantile people, and those who trade in money, from turning it to the best account; then all that should be proposed by government, is, to preserve the value of it at home, within this standard. For which purpose, nothing more is necessary than to prevent the competition of the dissipating class of inhabitants, from disturbing the rate which commerce may establish from time to time. This is accomplished by the methods above hinted at, and which in the next chapter shall be more largely insisted on. If, by prudent management, the conventional rate of interest, can thus be brought below the legal, then there may be no harm in diminishing the latter by statute, not however quite so low as the conventional standard; but so as to leave a reasonable latitude for gentle fluctuations above it. From what I have said, I still think I had reason to object to Child's plan for forcing down the interest of money by statute: and had he lived to the present time, I am persuaded he would have come into this opinion.
Methods of bringing down the Rate of Interest, in Consequence of the Principles of Demand and Competition

I hope the arguments used in the foregoing chapter will not be construed as an apology for the high interest of money. I entirely agree with Sir Josiah Child, that low interest is the soul of trade; the most active principle for promoting industry, and the improvement of land; and a requisite, without which it is hardly possible that foreign commerce can long be supported.

This proposition I take to be at this time universally admitted to be true; and did there remain, concerning it, the least doubt in the mind of any one, the writings of many, much better qualified than I can pretend to be, and among the rest those of the author just now cited, are sufficiently capable to remove it. I shall not therefore trouble my reader with a chapter upon this head, but only observe, that the terms high and low are constantly relative. Here the relation must be understood to regard other states, because when we speak of a rate of interest, we are supposed to mean something general in the country we are speaking of: accordingly, if we could suppose that, within the same state, the rate of interest should be lower in one city than any where else, this circumstance would give an advantage to such a city in all its mercantile operations.

I must farther observe, for the sake of connecting this part of our subject with our general plan, that the low interest for money is most essential to such states as carry on the most extensive foreign commerce.

In the infancy of industry, and before trade comes to be established, it is very natural that the coin of the country should be found in a great measure locked up in treasures: high interest tends to bring it forth, and in this respect works a good effect.

In proportion as alienation augments, money may be multiplied, by the melting down of solid property, as has been explained; and then the business of a statesman will be to contrive expedients for bringing the rate of it as low as possible, in order to support foreign trade, and to rival all neighbouring nations, where interest is higher. When foreign trade again comes to decline, from the multiplication of abuses introduced by luxury, low interest still continues to be useful, for supporting public credit, so necessary for defending a nation against her enemies.

If money consisted merely in the precious metals, which are not to be found in every country, but must be purchased with the produce of industry, and brought from far; and if no other expedient could be fallen upon to supply their place for the uses of circulation; then the possessors of these metals would in a manner be masters to establish for the use of them what rate of interest they thought fit.

But if this be not the case, and if money can be made of paper, to the value of all the solid property of a nation, (as far as occasion is found for it, by the owners of that property,) the use of the metals will be in a manner reduced to that of serving as a standard, for ascertaining the value of the denominations of money of account; perhaps for facilitating the circulation of small sums, and for paying a balance of trade to other nations.

When this comes to be the case, a statesman has it in his
power to increase or diminish the extent of credit and paper money in circulation, by various expedients, which greatly influence the rate of interest.

The progress of credit has been very rapid since the beginning of this century. This has been almost entirely owing to the mechanical contrivances of trading men. Lawgivers have hitherto had but imperfect notions concerning the nature of it; and there still remains, in the womb of nature, some mighty genius, born to govern a commercial nation, who alone will be able to set it on its true principles. Let us in the mean time speculate concerning them.

We have said, and every one feels, that interest falls in proportion to the redundancy of money to be lent.

Now what is this money but property, of one kind or other, thrown into circulation? I speak of trading nations, who are not confined to the quantity of their specie alone.

When a man of property wants money, may he not go to a bank, which lends upon mortgage, and by pledging his security, receive money, which is in the same instant created for his use? Do not those notes circulate as long as they are found necessary for carrying on the affairs of the nation? that is to say, the accompts of debtors and creditors of all denominations; and as soon as the quantity of them exceeds this proportion, they stagnate, and return on the debtors in them, (the bank,) who is enabled to realize them, because the original security is still in their hands, which was at first pledged when the notes were issued. This realization is commonly made in the metals; because they are the money of the world: they are real and true riches, as much as land; and they have this advantage over land, that they are transportable everywhere.

Now, does it not appear evident, that what we have been describing is a round-about operation, which it is possible to shorten?

I beg of my reader, to attend to one thing; namely, that I am not here treating of, or proposing a plan, but labouring to deduce principles in an intricate subject.

I say, when landed men go to such a bank, and receive paper for a land security, that this operation may be shortened. Do not the notes he gets stand (though this be not expressed) upon the security of his land? Now, can any man assign any other reason but custom, why his own notes, caring expressly in their bosom the same security, might not be issued, without his being obliged to interpose the bank between the public and himself: And for what does he pay this interest? Not because he has gratuitously received any value from the bank, since in his obligation he has given a full equivalent for the notes; but the obligation he has given carries interest, and the notes carry none. Why? Because the one circulates like money, the other does not. For this advantage, therefore, of circulation, not for any additional value, does the landed man pay interest to the bank.

Had landed men, and not merchants, invented this method of turning their property into circulation, and had they been all assembled in one body, with a legislative authority, I imagine they would have had wit enough to find out that a land bank was a thing practicable in its nature.

Suppose they should agree that all their lands should be let by the acre, and that land property should be esteemed at a certain number of years purchase, in proportion to the rate of interest at the time, where would be the great difficulty in paying in lands?

This is merely a hint, to which a thousand objections may be
made, as matters stand: all I say, is, that there is nothing here against principles; and though inconveniences might result to the landed interest, in every way such a plan could be laid down; yet still these inconveniences would hardly counterbalance that of landed men’s being obliged to pay interest for every penny they borrow.

It is demanded, what advantage would result to the nation from such a regulation?

I answer, that by it all the borrowings of landed men would be struck out of the competition at the money-market. The monied interest alone would borrow among themselves for the purposes of trade, (for monied men do not borrow to squander,) and landed men would consequently pay with their own paper, in every case, where now they borrow in order to pay. Thus interest would be regulated by the demands of trade, and the rate of it would not be disturbed by the competition of spendthrifts.

Who can say how far the consequences of such a scheme might reach? Might not landed men begin in time to issue notes by way of loan, at a very inconsiderable interest? But I am not disposed to carry my speculations farther: perhaps what has been said may appear sufficiently aerial.

If a statesman shall find every modification of this idea impracticable; either from his own want of power, or of skill, or, which is more probable, from the opposition of the monied interest; he must take other measures for striking out, as much as possible, the competition of spendthrifts in the money-market. Entails, and lame securities, are good expedients; though they are productive of many inconveniences. His own frugal oeconomy in state affairs will go much farther than any such trifling expedients.

Did a nation enjoying peace, although indebted perhaps 140 millions sterling, begin by paying off but 2 per cent of their capital yearly, besides the current interest; while no neighbouring state was borrowing any; what would interest fall to in a short time! It may be answered, that the consequence would be, to enrich other nations; because the money regorging at home, would be sent abroad. To which I reply, by asking how any state can be enriched by their borrowing? And in what does such lending to foreigners differ from the nation’s paying off their foreign creditors? Will not the return of interest from abroad compensate, pro tanto, the sums sent out for the like purpose?

But if it be said, that the consequence will be to enable other nations to bring down their own rate of interest; I allow it to be so; and so much the better, as long as it remains proportionally lower with us; which it must do, as long as we can lend abroad. We have said, and I believe with truth, that as credit is now extended, a general average is struck every where upon the value of money well secured, consequently, the lower that interest is reduced abroad, the lower still will it remain at home, as long as merchants and exchangers do subsist.

From this circumstance of the average on the rate of interest, the Dutch must, I think, have lost the great advantage they formerly enjoyed, from the low rate of it in Holland, relatively to other nations.

In Child’s time, the Dutch were familiarly buying up sugars in London, above the price paid by English sugar-bakers; and, notwithstanding the additional freight and charges, they grew rich by their trade, while the others were hardly making any profit. This he accounts for from the low rate of their interest. He supposes both Dutch and English to have carried on this trade with borrowed money; for which the first paid 3 per cent and the
other 6 per cent.

But at present, were it possible to get 6 per cent for money in London, what Dutchman would lend his father a shilling at 3 per cent? The English stocks are as currently bought and sold, nay, all the stockjobbing tricks are practised with the same subtlety at Amsterdam as in Change-Alley: from which I conclude, that a great part of the advantage of low interest is now lost to that nation; and I conclude farther, that it is the common interest of all trading nations to bring interest as low as possible everywhere.

Another cause of high interest proceeds from certain clogs laid upon circulation, which flow merely from custom and prejudice. Of this nature is the obligation laid upon debtors to pay in the metals, nothing but coin being a legal tender.

The only reason for such a regulation was the precariousness of credit in former times. Were all the circulating paper in a nation secured by law, either upon the lands or revenue of the country appropriated for that purpose, there could be no injustice or inconvenience in making paper (so secured) a legal tender in all payments. Again, how extraordinary must it appear to any reasonable man, that the same paper which passes on one side of a river, running through the same country, should not pass on its opposite bank?

The reason of this is indeed very plain: the subaltern jurisdictions on each side are different; and the debtors in the paper are different: but if the paper of both stood upon a security equally good, what is to hinder both to be received as a legal tender in all payments over the kingdom? Should not little private objects of profit among bankers (who are the servants of the state, and who are so well paid for their service) be over-ruled, when the consequences of their disputes are found to be so hurtful? But of this more, when we come to speak of banks.

The only occasion where a large quantity of coin is necessary in the liquidation of paper, is for payment of the balance of trade with foreign nations. Of this also we shall treat more at large, when we come to the doctrine of exchange. But surely nothing can be so ill judged, as to create an imaginary balance within the same state; or rather, to permit money-jobbers to create it; at the expense of raising interest, and hurting trade, in the very places where it stands most in need of encouragement.

From these principles, and others which naturally flow from them, may a statesman steer a very certain course, towards bringing the rate of interest as low as the prosperity of trade requires, or the principles of double competition between borrowers and lenders will permit.

Chap. VIII

Is the Rate of Interest the certain measure of the State of Commerce?

Some political writers are fond of every expedient to reduce within a narrow compass many questions, which being involved in combinations, cannot be reduced to one principle. This throws them into what I call systems; of which we have an example in the question now before us.

There is nothing more difficult than to determine how far commerce runs favourably, and how far unfavourably for a nation. This would not be the case, were the rate of interest the certain measure of it. I have found it however advanced, that nothing more is necessary to be known, in order to estimate the relative
profits upon the foreign trade of two nations, than to compare
the common rate of interest in both, and to decide the preference
in favour of that nation where it is found to be lowest.

We may say concerning this proposition, as concerning the
course of exchange; that the lowness of interest and of the price
of exchange are both exceedingly favourable to trade; but they
are no adequate measure of the profits arising from it.

The best argument in favour of this opinion with regard to
interest is, that the nation which sells the cheapest at foreign
markets is constantly preferred; and, consequently, where the use
of money is the lowest, the merchant can sell the cheapest.

I answer, that this consequence would be just, were all trade
carried on with borrowed money, were the difference of the price
of the materials or first matter, the ease of procuring them, the
promptitude of payments, the industry of the manufacturer, and
his dexterity, all reckoned for nothing. But such advantages are
frequently found in these articles, as to be more than sufficient
to counterbalance the additional interest which may be paid for
the money employed in trade. This is so true, that we see the
dexterity alone of the workman (living in an expensive capital,
where the charge of living may be double of what it is in the
country) enabling him to undersell his competitors every where:
the same may be true with regard to the other articles. Farther,
how absurd is it to say, that all trade is carried on with
borrowed money? A very inconsiderable part of trade is carried on
with borrowed money, in any country in Europe; and that part,
which is carried on with borrowed money, is not so much clogged
by the high rate of interest, as by want of punctuality in
payments. A merchant who can turn his money in three months,
borrowes as cheaply at 6 per cent as another who turns his in six
months, when he borrows at 3 per cent.

The object of trade is produce and manufacture. These are
prepared for the market by farmers and tradesmen. Let us compare
the value of them, when sold at market to the merchant, with the
interest of the money borrowed by the farmers and tradesmen, in
order to carry on their industry, and we shall find that the
interest paid by them, bears hardly any proportion at all, to the
value of what they produce. Example. A sheep borrows no money in
order to produce wool; spinners and weavers borrow no money in
order to enable them to spin and to weave. Thus the whole
manufacture comes to market without any charge for interest.

Do we not see every day, that ingenious workmen, who obtain
credit for very small sums, are soon enabled, by the means of
their own industry, to produce a surprising value in
manufactures, and not only to subsist, but to increase in riches?
The interest they pay for the money borrowed is inconsiderable,
when compared with the value, created (as it were) by the proper
employment of their time and talents.

If it be said, that this is a vague assertion, supported by
no proof; I answer, that the value of a man’s work may be
estimated by the proportion between the manufacture when brought
to market, and the first matter. Nothing but the first matter,
and the instruments of manufacture, can be considered as the
objects of borrowed money; unless we go so far as to estimate the
nourishment, and every expence of the manufacturer, and suppose
that these are also supplied from borrowed money. To affirm this,
would be turning arguments into cavil.

The object, therefore, of borrowed money for carrying on
trade, is more relative to the merchant than to the manufacturer.
Borrowing is necessary for collecting all this product and
manufacture into the hands of merchants. This, no doubt, is very
commonly the operation of credit: interest of money, here, comes in, to indemnify the giver of credit, for the use of his money: but this interest is due from the time only, when the borrower pays those from whom he collects, to the time he receives payment from those to whom he sells. This interval it is of the highest importance to the merchant to shorten. In proportion as it is long, and in proportion to the rate of interest, he must raise his profits; and in proportion as payments are quick and regular, and interest low, he may diminish them. Whether merchants do regulate their profits, in all commercial nations, according to the exact proportion of the respective rates of interest, and promptitude of payments among them; or whether these are determined by the circumstances of demand and competition in the several foreign markets where the trade is carried on, I leave to merchants to determine. All I shall remark is, that a well founded credit, and prompt payments, will do more service to trade, than any advantage trading men can reap from the different rate of interest in different countries.

It must not be concluded from this, that low interest is not a very great advantage to trade; all I contend for, is, that it is not the measure of it.

Another circumstance which puts nations, in our days, much more on a level than they were in former times, I have already hinted at. It is that general average which the great loads of national debts, and the extension of credit, through the several nations of Europe, who pay annually large sums of interest to their creditors, has established. Let me suppose the Dutch, for example, to have fixed, by placard, the rate of their interest at 3 per cent. I say, that as soon as the general average of interest comes to stand above this rate, from the price of public funds in England and France, we may safely conclude, that their trade can no longer be carried on with any very considerable sum of money borrowed at 3 per cent. The consequence then must be, to send the money which regorges in the hands of the frugal Dutch, into other countries, where it can produce a better return, exclusive of all expences of remitting and drawing. What the consequences of this lending to foreigners may be to Holland, shall be afterwards examined.

To conclude; I reckon it will be found, that what had led some to believe that low interest is the measure of commerce, has been owing to this; that in some of the most commercial countries and cities interest has been found to be lower than in great kingdoms: but this, I imagine, is entirely owing to the frugality of their manners, which cuts off the borrowing of the rich for the sake of dissipation. When this is accomplished, trade alone will absorb the stagnations of the frugal, and the price of interest will fall to that rate which is the best proportioned to the profits upon commerce; but this also will be less and less the case every day, in proportion to the credit and circulation of public funds in different nations.

Chap. IX

Does not Interest fall in Proportion as Wealth increases?

I answer in the affirmative: provided it be supposed that dissipation do not increase in proportion to the wealth. Now in a general proposition, such as this which stands at the head of our chapter, this very necessary proviso is apt to be overlooked, and thus people are led to error. The manners of a people, not their external circumstances as to riches, are that which renders them
frugal or extravagant. What, therefore, depends upon the spirit of a people, cannot be changed, but in consequence of a change of that spirit.

If the rate of interest be high, from a taste of dissipation, let foreign trade throw in what loads of money it may, interest will stand high, until manners do change. Every class of a people has their peculiar spirit. The frugal merchant will accumulate wealth, and the prodigal lord will borrow it. In this situation, internal circulation will be rapid, and lands will shift hands. If this revolution should prove a corrective to dissipation, by vesting property in those who have contracted a firm habit of frugality, then an augmentation of wealth may sink the rate of interest. But if, on the contrary, the laws and manners of the country do distinguish classes by their manner of living, and mode of expense, it is ten to one but the industrious and frugal merchant will put on the prodigal gentleman, the moment he gets into a fine country seat, and hears himself called your Honour. In certain countries, the memory of past industry carries a dreg along with it, which nothing but expensive living has power to purge away.

Let this suffice at present upon the subject of interest: it is so connected with the doctrine of credit, that it will recur again at almost every step as we go along.

NOTES:

1. In France particularly.

2. The terms regorging and stagnating, are the best I can fall upon to express the idea here defined; and therefore I shall take the liberty to use them in this sense wherever I shall have occasion to speak concerning a superfluity of coin or of money.

Part II

Of Banks

Chap. I

Of the various Kinds of Credit

We have already pointed out the nature of credit, which is confidence; and we have deduced the principles which influence the rate of interest, the essential requisite for its support.

We come now to treat of domestic circulation; where we are to deduce the principles of banking. This is the great engine calculated for carrying it on.

That I may, with order, investigate the many combinations we shall here meet with, I must point out wherein banks differ from one another in point of policy, as well as in the principle upon which their credit is built.

If they be considered relatively to their policy, they may be divided into banks of circulation, and banks of deposit.

If they be considered relatively to the principles upon which their credit is built, they may be divided into banks upon private credit, banks upon mercantile credit, and banks upon public credit.

It is to this last division only I must attend, in the distribution of what is to follow; and therefore it is proper to set out by explaining what I understand by the terms I have here
First, private credit. This is established upon a security, real or personal, of value sufficient to make good the obligation of repayment both of capital and interest. This is the most solid of all.

Secondly, mercantile credit. This is established upon the confidence the lender has, that the borrower, from his integrity and knowledge in trade, may be able to replace the capital advanced, and the interest due during the advance, in terms of the agreement. This is the most precarious of all.

Thirdly, public credit. This is established upon the confidence reposed in a state, or body politic, who borrow money upon condition that the capital shall not be demandable; but that a certain proportional part of the sum shall be annually paid, either in lieu of interest, or in extinction of part of the capital; for the security of which, a permanent annual fund is appropriated, with a liberty, however, to the state to free itself at pleasure, upon repaying the whole; when nothing to the contrary is stipulated.

The solidity of this species of credit depends upon circumstances.

The difference between the three kinds of credit lies more in the object of the confidence, and the nature of the security, than in the condition of the borrower. Either a private man, a merchant, or a state, may pledge, for the security of a loan, a real or a moveable security, with an obligation to refund the capital. In this case, the obligation stands upon the solid basis of private credit.

Either a private man, a merchant, or a state, may strike out projects which carry a favourable appearance of success, and thereupon borrow considerable sums of money, repayable with interest. In this case, the obligation stands upon a mercantile credit.

Either a private man, a merchant, or a state, may pledge (for the security of money borrowed) a perpetual annual income, the fund of which is not their property, without any obligation to refund the capital: such obligations stand upon the principles of public credit.

I allow there is a great resemblance between the three species of credit here enumerated: there are however some characteristic differences between them.

First, in the difficulty of establishing and supporting them. Private credit is inseparable, in some degree, from human society. We find it subsisting in all ages: the security is palpable, and the principles on which it is built are simple and easy to be comprehended. Public credit is but a late invention: it is the infant of commerce, and of extensive circulation. It has supplied the place of the treasures of old, which were constant and ready resources to statesmen in cases of public distress: the security is not palpable, nor readily understood, by the multitude; because it rests upon the stability of certain fundamental maxims of government. Mercantile credit is still more difficult to be established; because the security is the most precarious of any; it depends upon opinion and speculation, more than upon a determinate fund provided for repayment of either capital or interest.

Secondly, they differ in the nature of the security and object of confidence. Private credit has a determinate object of confidence, viz. the real existence of a value in the hands of the debtor, sufficient to acquit both capital and interest. Public credit has
the visible security of a fund appropriated for the perpetual payment of the interest. Mercantile credit depends wholly upon the integrity, capacity, and good fortune of the debtor.

The third difference is with regard to the ease of transfer. All public debts stand generally on the same bottom. No part of the same fund is better than another: the price of them is publicly known, and the securities are laid in the most convenient way for transfer, that is, for circulation, without consent of the debtor. This is far from being the case in private securities. Nor is it the case in the mercantile, except in bills payable to order or to bearer; in which cases alone, the creditor can effectually transfer without the consent of the debtor.

The fourth difference is discovered in the stability of the confidence. Nothing can shake private credit, but an appearance of insolvency in the very debtor. But the bankruptcy of one considerable merchant, may give a shock to mercantile credit all over Europe: and nothing will hurt public credit, as long as the stipulated interest continues regularly to be paid, and as long as the funds appropriated for this payment remain entire.

From what has been said, I hope the three species of credit have been sufficiently explained; and, from what is to follow, we shall feel the utility of this distribution.

Chap. II

Of private Credit

Private credit is either real, personal, or mixed.

Real security, every body understands. It is the object of law, not of politics, to give an enumeration of its different branches. By this term, we understand no more than the pledging an immovable subject for the payment of a debt. As by a personal security we understand the engagement of the debtor's whole effects for the relief of his creditor. The mixed, I have found it necessary to superadd, in order to explain with more facility, the security of one species of banks. The notes issued by banks upon private credit, stand upon a mixed security: that is, both real and personal. Personal, as far as they affect the banker, and the banking stock pledged for the security of the paper: and real, as far as they affect the real securities granted to the banker for the notes he lends, which afterwards enter into circulation.

The ruling principle in private credit, and the basis on which it rests, is the facility of converting, into money, the effects of the debtor; because the capital and interest are constantly supposed to be demandable. The proper way, therefore, to support this sort of credit to the utmost, is to contrive a ready method of appretiating every subject affectable by debts; and secondly, of melting it down into symbolical or paper money.

In former times, when circulation was inconsiderable, the scheme of melting down the property of debtors, for the payment of creditors, was impracticable; and accordingly we see that capitals secured on land property were not demandable. This formed another species of credit, different from any we have mentioned; which differed from public credit in this only, that the solid property producing the income, was really in the hands of the debtor; whereas the fund which produces the public revenue is not in the hands of the state. This subdivision we have omitted, as its basis, in both cases, rests solely upon the regular payment of the interest. Of this nature are the contracts
of constitution in France, and the old investments of annual rent in Scotland. There are few nations, I believe, in Europe, where some traces, at least, of this kind of security do not remain.

In order, then, to carry private credit to its greatest extent, all entails upon lands should be dissolved; all obligations should be regularly recorded in public registers; the value of all lands should be ascertained, the moment any security is granted upon them; and the statesman should interpose between parties, to accelerate the liquidation of all debts, in the shortest time, and at the least expense possible.

Although this method of proceeding be the most effectual to secure, and to extend private credit, yet it is not, at all times, expedient to have recourse to it: this has been abundantly explained in the 27th chapter of the second book; and therefore I shall not here interrupt my subject with a needless repetition.

Chap. III

Of Banks

In deducing the principles of banks, I shall do the best I can to go through the subject systematically.

I have divided credit into three branches, private, mercantile, and public. This distribution will be of use on many occasions, and shall be followed as far as it will go, consistently with perspicuity: but, as has been often observed, subjects of a complex nature cannot be brought under the influence of a few general principles, without running into the modern vice of forming systems, by wire-drawing many relations in order to make them answer.

The great operations of domestic circulation may be better discovered by an examination into the principles upon which we find banking established, than by any other method I can contrive. It has been by inquiring into the nature of those banks which are the most remarkable in Europe, that I have gathered the little knowledge I have of the theory of domestic circulation. This induces me to think that the best way to communicate my thoughts on this subject, is to lay down the result of my inquiries relatively to the very object of them.

After comparing the operations of different banks in promoting circulation, I find I can divide them, as to their policy, into two general classes, viz. those which issue notes payable in coin to bearer; and those which only transfer the credit written down in their books from one person to another.

Those which issue notes, I call banks of circulation; those which transfer their credit, I call banks of deposit. Both indeed may be called banks of circulation, because by their means circulation is facilitated; but, as different terms serve to distinguish ideas different in themselves, these I here employ will answer the purpose as well as any others, when once they are defined; and circulation undoubtedly reaps far greater advantages from banks which issue notes transferable everywhere, than from banks which only transfer their credit on the spot where the books are kept.

I shall, according to this distribution, first explain the principles upon which the banks of circulation are constituted and conducted, before I treat of the others.

This will lead me to avail myself of the division I have made of credit, into private, mercantile, and public; because, according to the purposes for which a bank is established, the ground of confidence, that is, the credit of the bank, comes to
rest upon one or other of them.

In countries where trade and industry are in their infancy, credit can be but little known; consequently, they who have solid property, must find great difficulty in turning it into money; without money, again, industry cannot be carried on, as we have abundantly explained in the 26th chapter of the second book; consequently without credit the whole plan of national improvement will be disappointed.

Under such circumstances, it is proper to establish a bank upon the principles of private credit. This bank must issue notes upon land and other securities, and the profits of it must arise from the permanent interest drawn for the money lent.

Of this nature are the banks of Scotland. To them the improvement of this country is entirely owing; and until they are generally established in other countries of Europe, where trade and industry are little known, it will be very difficult to set these great engines to work.

Although I have represented this species of banks, which I shall call banks of circulation upon mortgage, as peculiarly well adapted to countries where industry and trade are in their infancy, their usefulness to all nations, who have upon an average a favourable balance upon their trade, will sufficiently appear upon an examination of the principles upon which they are established.

It is for this reason that I have applied myself to reduce to principles the many operations of the Scotch banks, during the time they were in the greatest distress imaginable, from the heavy balance the country owed during the last years of the late war, and for some time after the peace in 1763. By this I flatter myself to do a particular service to Scotland, as well as to suggest hints which may prove useful, not to England only, but to all commercial countries, who, by imitating this establishment, will reap advantages of which they are at present deprived.

For these reasons, I hope the detail I shall enter into with regard to Scotland, will not appear tedious, both from the variety of curious combinations it will contain, as also from the lights it will cast upon the whole doctrine of circulation, which is the present object of our attention.

In countries where trade is established, industry flourishing, credit extensive, circulation copious and rapid, as is the case with England, banks upon mortgage, however useful they may prove for other purposes, would not answer the demands of the trade of London, and the service of government, so well as the bank of England.

The ruling principle of this bank, and the ground of their confidence, is mercantile credit. The bank of England does not lend upon mortgage, nor personal security: their profits arise from discounting bills; loans to government, upon the faith of taxes, to be paid within the year; and upon the credit cash of those who deal with them.

A bank such as that of England, cannot therefore be established, except in a great wealthy mercantile city, where the accumulation of the smallest profits amount, at the end of the year, to very considerable sums.

In France, under the regency of the Duke of Orleans, there was a bank erected upon the principles of public credit. The ground of confidence there, and the only security for all the paper they issued, were the funds appropriated for the payment of the interest of the public debts.

It is for the sake of order and method, that I propose to explain the principles of banking, according to this
distribution. I must however confess, that although I represent each of the three kinds of banks as having a cause of confidence peculiar to itself, to wit, either private, mercantile, or public credit; yet we shall find a mixture of all the three species of credit entering into the combination of every one of them.

Banking, in the age we live, is that branch of credit which best deserves the attention of a statesman. Upon the right establishment of banks, depends the prosperity of trade, and the equable course of circulation. By them solid property may be melted down. By the means of banks, money may be constantly kept at a due proportion to alienation. If alienation increase, more property may be melted down. If it diminish, the quantity of money stagnating, will be absorbed by the bank, and part of the property formerly melted down in the securities granted to them, will be, as it were, consolidated anew. Banks must pay, as agents for the country, the balance of their trade with foreign nations. Banks keep the mints at work; and it is by their means, principally, that private, mercantile, and public credit are supported. I can point out the utility of banks in no way so striking, as to recall to mind the surprising effects of Mr Law's bank, established in France, at a time when there was neither money or credit in the kingdom. The superior genius of this man produced, in two years time, the most surprising effects imaginable; he revived industry; he established confidence; and shewed to the world, that while the landed property of a nation is in the hands of the inhabitants, and while the lower classes are willing to be industrious, money never can be wanting. I must now proceed in order, towards the investigation of the principles which influence this intricate and complicated branch of my subject.

Chap. IV

Banks of circulation upon mortgage or private credit, are those which issue notes upon private security, payable to bearer on demand, in the current coin of the nation. They are constituted in the following manner.

A number of men of property join together in a contract of banking, either ratified or not by public authority, according to circumstances. For this purpose, they form a stock which may consist indifferently of any species of property. This fund is engaged to all the creditors of the company, as a security for the notes they propose to issue. So soon as confidence is established with the public, they grant credits, or cash accompts, upon good security; concerning which they make the proper regulations. In proportion to the notes issued in consequence of these credits, they provide a sum of coin, such as they judge to be sufficient to answer such notes as shall return upon them for payment. Nothing but experience can enable them to determine the proportion between the coin to be kept in their coffers, and the paper in circulation. This proportion varies even according to circumstances, as we shall afterwards observe.

The profits of the bank proceed from the interest paid upon all the money advanced by the bank, in consequence of credits given. Out of these profits must be deducted, first, the charge of management; secondly, the loss of interest for all the coin they preserve in their coffers, as well as the expence they are put to in prodding it; and thirdly, the expence of transacting and paying all balances due to other nations.

In proportion, therefore, as the interest upon the money
advanced by the bank in consequence of the securities, exceeds
the loss of interest on the coin in the bank, the expence of
management, and of prodding funds abroad to pay balances, in the
same proportion is their profit; which they may either divide,
accumulate, or employ, as they think fit.

Let it be observed, that I do not consider the original bank
stock, or the interest arising from that, as any part of the
profits of the bank. So far as it regards the bank, it is their
original property; and so far as it regards the public, it serves
for a collateral security to it, for the notes issued. It becomes
a pledge, as it were, for the faithful discharge of the trust
reposed in the bank: without such a pledge, the public could have
no security to indemnify it, in case the bank should issue notes
for no permanent value received. This would be the case, if they
thought fit to issue their paper either in payment of their own
private debts, or for articles of present consumption, or in a
precarious trade.

When paper is issued by a bank for no value received, the
security of such paper stands upon the original capital of the
bank alone; whereas when it is issued for value received, that
value is the security on which it immediately stands, and the
bank stock is, properly speaking, only subsidiary.

I have dwelt the longer upon this circumstance, because many,
who are unacquainted with the nature of banks, have a difficulty
to comprehend how they should ever be at a loss for money, as
they have a mint of their own, which requires nothing but paper
and ink to create millions. But if they consider the principles
of banking, they will find that every note issued for value
consumed, instead of value received and preserved, is neither
more or less, than a partial spending either of their capital, or
profits on the bank. Is not this the effect of the expence of
their management? Is not this expence paid in their notes? But
did ever any body imagine that this expence did not diminish the
profits of banking? Consequently, such expence may exhaust these
profits, if carried far enough; and if carried still farther,
will diminish the capital of the banking stock.

As a farther illustration of this principle, let me suppose,
an honest man, intelligent, and capable to undertake a bank. I
say that such a person, without one shilling of stock, may carry
on a bank of domestic circulation, to as good purpose as if he
had a million; and his paper will be every bit as good as that of
the bank of England. Every note he issues will be secured on good
private security; this security carries interest to him, in
proportion to the money which has been advanced by him, and
stands good for the notes he has issued. Suppose then that after
having issued for a million sterling, all the notes should return
upon him in one day. Is it not plain, that they will find, with
the honest banker, the original securities, taken by him at the
time he issued them; and is it not true, that he will have,
belonging to himself, the interest received upon these
securities, while his notes were in circulation, except so far as
this interest has been spent in carrying on the business of his
bank? Large bank stocks, therefore, serve only to establish their
credit; to secure the confidence of the public, who cannot see
into their administration; but who willingly believe, that men
who have considerable property pledged in security of their good
faith, will not probably deceive them.

This stock is the more necessary, from the obligation to pay
in the metals. Coin may be wanting, upon some occasions, to men
of the greatest landed property. Is this a reason to suspect
their credit? Just so of banks. The bank of England may be
possessed of twenty millions sterling of good effects, to wit, their capital; and the securities for all the notes they have issued; and yet that bank might be obliged to stop payment, upon a sudden demand of a few millions of coin.

Runs upon a bank well established, betray great want of confidence in the public; and this want of confidence proceeds from the ignorance the greatest part of men are in, with regard to the state of their affairs, and to the principles upon which their trade is carried on.

From what has been said, we may conclude, that the solidity of a bank which lends upon private security, does not so much depend upon the extent of their original capital, as upon the good regulations they observe in granting credit. In this the public is nearly interested; because the bank securities are really taken for the public, who are creditors upon them in virtue of the notes which circulate through their hands.

Chap. V

Such Banks ought to issue their Notes on private, not mercantile Credit

Let me, therefore, reason upon the example of two bankers; one issues his notes upon the best real or personal security; another gives credit to merchants and manufacturers, upon the principles of mercantile credit, which we have explained above; the notes of the one and of the other enter into circulation, and the question comes to be, which are the best? If we judge by the regularity of the payment of notes on presentation, perhaps the notes of the one are as readily paid as those of the other. If we judge by the stock of the two bankers, perhaps they may be equal, both in value and solidity; but it is not upon either of these circumstances that the question depends. The notes in circulation may far exceed the amount of the largest bank stock; and therefore, it is not on the original stock; but on the securities taken at issuing the notes, that the solidity of the two currencies is to be estimated. Those secured on private credit, are as solid as lands and personal estates; they stand upon the principles of private credit. Those secured on the obligations of merchants and manufacturers, depending upon the success of their trade, are good or bad in proportion to such success. Every bankruptcy of one of their debtors, involves the bank, and carries off either a part of their profits, or of their stock. Which way, therefore, can the public judge of the affairs of bankers, except by attending to the nature of the securities upon which they give credit.

Chap. VI

Use of subaltern Bankers and Exchangers

Here it may be urged, that the great use of banks is to multiply circulation, and to furnish the industrious with the means of carrying on their traffic: that if banks insist upon the most solid sureties before they give credit, the great utility of them must cease; because merchants and manufacturers are never in a situation to obtain credit upon such terms.

This argument proves only, that banks are not, alone, sufficient for carrying on every branch of circulation. A truth which nobody will controvert. But as they are of use in carrying on the great branches of circulation, it is proper to prevent
them from engaging in schemes which may destroy their credit altogether.

I have observed above, that this method of issuing notes upon private security, was peculiarly well adapted to countries like Scotland, where trade and industry are in their infancy.

Merchants and manufacturers there, have constant occasion for money or credit; and at the same time, they cannot be supposed to have either real or personal estates to pledge, in order to obtain a loan directly from the banks, who ought to lend upon no other security.

To remove this difficulty, we find a set of merchants, men of substance, who obtain from the banks very extensive credits upon the joint real and personal security of themselves and friends. With this assistance from the bank, and with money borrowed from private people, repayable on demand, something below the common rate of interest, they support the trade of Scotland, by giving credit to the merchants and manufacturers.

To this set of men, therefore, are banks of circulation upon mortgage to leave this particular branch of business. It is their duty, it is the interest of the country, and no less that of banks, that they be supported in so useful a trade; a trade which animates all the commerce and manufactures of Scotland, and which consequently promotes the circulation of those very notes upon which the profits of the banks do arise.

These merchants are settled in all the most considerable towns: they are well acquainted with the stock, capacity, industry, and integrity of all the dealers in their district: they are, many, and by this are able to go through all the detail which their business requires; and their profits, as we shall see presently, are greater than those of banks, who lend at a stated interest.

The common denomination by which they are called in Scotland, is that of bankers; but, to avoid their being confounded with the bankers in England (whose business is very different) we shall, while we are treating of the doctrine of banks, call them by the name of exchangers, since their trade is principally carried on by bills of exchange.

As often as these exchangers give credit to dealers in any way, they constantly state a commission of 1/2 per cent or more, according to circumstances, over and above the interest of their advance; these are profits, which greatly surpass those of any bank. One thousand pounds credit given by a bank, may not produce ten pounds in a year for interest: whereas were a like credit given by a banker, to a merchant, who draws it out, and replaces it forty times in a year, there will arise upon it a commission of 20 per cent or 200 l.

This set of men are exposed to risks and losses, which they bear without complaint, because of their great profits; but it implies a detail, which no bank can descend to.

These exchangers break from time to time; and no essential hurt is thereby occasioned to national credit. The loss falls upon those who lend to them, or trust them with their money, upon precarious security; and upon merchants, who make allowances for such risks. In a word, they are a kind of insurers, and draw premiums in proportion to their risks.

To this set of men, therefore, it should be left to give credit to merchants, as the credit they give is purely mercantile; and to banks alone, who give credit on good private security, it should be left to conduct the great national circulation, which ought to stand upon the solid principles of private credit.
From this example we may discover the justness of the distinction I have made between private and mercantile credit: had I not found it necessary, I should not have introduced it.

Chap. VII

Concerning the Obligation to pay in Coin, and the Consequences thereof

In all banks of circulation upon mortgage, the obligation in the note is to pay in coin, upon demand: and in the famous bank of Mr Law, there was a very necessary clause added to the note; to wit, that the coin was to be of the same weight, fineness and denomination, as at the date of the note. This was done, in order to prevent the inconveniences which might result to either party, by the king's arbitrarily raising or sinking the denominations of the coin; a practice then very familiar in France.

This obligation to pay in coin, owes its origin to the low state of credit in Europe at the time when banks first began to be introduced; and it is not likely that any other expedient will soon be fallen upon to remove the inconveniences which result from it in domestic circulation, as long as some persons of the most acute understanding in many things, consider all money, except, coin to be false and fictitious.

I have already thrown out abundance of hints, from which it may be gathered, that, in my opinion, coin is not absolutely necessary for carrying on domestic circulation, and more will be said on this subject, as we go along. But I am here to examine the nature and consequences of this obligation, contracted by banks, to discharge their notes in the current coin of the country.

In the first place, it is plain, that no coin is ever (except in very particular cases) carried to a bank, in order to procure notes. The greatest part of notes issue from the banks, concerning which we are treating, either in consequence of a loan, or of a credit given by the bank, to such as can give security for it. This loan is made in their own notes; which are quickly thrown into circulation by the borrower; who borrowed them, because he had occasion to pay them away. In like manner, when a credit is given, the bank pays (in her notes) all the orders she receives from the person who has the credit: in this manner are notes commonly issued from a bank.

Coin, again, comes to a bank, in the common course of circulation, by payments made to it, either for the interest upon their loans, or when merchants and landed men throw the payments made to them into the bank, towards filling up their credits; or by way of a safe deposit for their money. These payments are made to the bank in the ordinary circulation of the country. When there is a considerable proportion of coin in circulation, then the bank receives much coin; and when there is little, they receive little. Whatever they receive is laid by to answer notes which are offered for payment; but whenever a draught is made upon them for the money thrown in as above, they pay in paper.

As we are here searching after principles, not after facts, it is out of our way to inquire what may be the real proportion of coin preserved by banks of circulation, for answering the demand for it.

Mr Megens, a very knowing man, and a very judicious author, lately dead, who has written a small treatise in the German tongue, translated into English, under the title of The Universal Merchant, delivers his sentiments concerning the proportion of
coin preserved in the bank of England, which I shall here transcribe in the translator's words. Sect. 60.

'The bank of England consists of two sorts of creditors, the one of that set of men, who, in King William's time, when money was scarce and dear, lent the public 1,200,000 pounds, at 8 per cent interest, and 4000 pounds were allowed them for charges, amounting in whole to 100,000 pounds a year, an exclusive right of banking as a corporation for 13 years, under the denomination of the proprietors of the bank; and which, for obtaining prolongation of their privileges, has been since increased by farther loans to the public at a less interest, to near the sum of 11,000,000 pounds, which if we compute the interest at 3 per cent (as what they have more on some part answers incident charges) it produces 330,000 pounds a year; and as they divide annually 5 per cent to their proprietors, which is 550,000 pounds, it is evident that they make a yearly profit of 220,000 pounds, out of the money of the people who keep cash with them, and these are the other sort of creditors: and as for what money the bank lends to the government, they have for the most part but 3 per cent interest, I conclude that the credit cash they have in their hands may amount to 11,000,000 pounds, and thereout is employed in loans to the government, in the discounting of bills, and in buying gold and silver 7,333,333 1/3 pounds, which, at 3 per cent interest or profit, will amount to the above 220,000 pounds, and remains 3,666,666 2/3 pounds in cash, sufficient for circulation and current payments. And experience has evinced, that whenever any mistrust has occasioned any run upon the bank for any continuance, and the people not finding the treasure so soon exhausted as they surmised, it flowed in again faster on the one hand than it was drawn out on the other.'

This gentleman lived long in England. He was very intelligent in matters relating to commerce; and his authority may, I believe, be relied on as much as any other person's, except that of the bank itself; which, it would appear, has some interest in keeping such affairs a secret.

We see by his account, that the bank of England keeps in coin one third part of the value of all their notes in circulation. With this quantity, business is carried on with great smoothness, owing to the prosperity of that kingdom, which seldom owes any considerable balance to other nations.

But the consequence of the obligation to pay in coin, is, that when the nation comes to owe a foreign balance, the notes which the bank had issued to support domestic circulation only, come upon it for the payment of this balance; and thereby the coin which it had provided for home demand only, is drawn out.

It is this circumstance, above all others, which distresses banks of circulation. Were it not for this, the obligation to pay in coin might easily be discharged; but when in virtue of this pure obligation, a heavy national balance is demanded from the bank, which has only made provision for the current and ordinary demand at home, it requires a little combination to find out, at once, an easy remedy.

This combination we shall, in the following chapters, endeavour to unfold: it is by far the most intricate, and at the same time the most important in the whole doctrine of banks of circulation.

Another inconveniences resulting from this obligation to pay in coin, we have explained in the third book. It is, that the confusion of the English coin, and the lightness of a great part of it, obliges the bank of England to purchase the metals at a price far above that which they can draw back for them after they
are coined. We have there shewn the great profit that might be
made in melting down and exporting the heavy species. This profit
turns out a real loss to the bank of England, which is constantly
obliged to provide new coin, in proportion as it is wanted. This
inconvenience is not directly felt by banks, in countries where
there is no mint established.

Here then is another bad consequence of this obligation to
pay in the metals, which a proper regulation of the coin would
immediately remove. In countries which abound in coin, banking is
an easy trade, when once their credit is well established. It is
principally when either a foreign war, or a wrong balance of
trade has carried off the metals, that the weight of this
obligation to pay in coin is severely felt.

Chap. VIII

How a wrong Balance of Trade affects Banks of Circulation

It is commonly said, that when there is a balance due by any
nation upon the whole of their mercantile transactions with the
rest of the world, such balance must be paid in coin. This we
call a wrong balance. Those who transact the payment of this
balance, are those who regulate the course of exchange; and we
may suppose, without the least danger of being deceived, that the
course is always higher than the expence of procuring and
transporting the metals; because the overcharge is profit to the
exchanger, who without this profit could not carry on his
business.

These exchangers, then, must have a command of coin; and
where can they get it so easily, and so readily, as from banks
who are bound to pay in it?

Every merchant who imports foreign commodities, must be
supposed to have value in his hands from the sale of them; but
this value must consist in the money of the country: if this be
mostly in bank paper, he must give the bank paper for a bill to
the exchanger, whose business it is to place funds in those parts
upon which bills are demanded. The exchanger again (to support
the fund which he exhausts by his draughts) must demand coin from
the banks, for the notes he received from the merchant when he
gave him the foreign bill.

Besides the wrong balances of trade transacted in this
manner, which banks are constantly obliged to make good in coin,
every other payment made to foreigners has the same effect. It is
not because it is a balance of trade, but because it is a payment
which cannot be made in paper currency, that a demand is made for
coin. Coin we have called the money of the world, as notes may be
called the money of the society. The first then must be procured
when we pay a balance to foreigners; the last is full as good
when we pay among ourselves.

It is proper, however, to observe, that there is a great
difference between the wrong balance of trade, and the general
balance of payments. The first marks the total loss of the
nations when her imports exceed the value of her exports; the
second comprehends three other articles, viz. 1. the expence of
the natives in foreign countries; 2. the payment of all debts,
principal and interest, due to foreigners; 3. the lending of
money to other nations.

These three put together, make what I call the general
balance of foreign payments: and these added to the wrong balance
of trade may be called the grand balance with the world.

Now as long as the payment of this grand balance is
negotiated by exchangers, all the coin required to make it good, must be supplied by banks, while they have one note in circulation.

How then is this coin to be procured by nations who have no mines of their own?

Chap. IX

How a grand Balance may be paid by Banks, without the assistance of Coin

Did all the circulation of a country consist in coin, this grand balance as we have called it, would be paid out of the coin, to the diminution of it.

We have said that the acquisition of coin, or of the precious metals, adds to the intrinsic value of a country, as much as if a portion of territory were added to it. The truth of this proposition will now soon appear evident.

We have also said, that the creation of symbolical money, adds no additional wealth to a country, but only provides a fund of circulation out of solid property; which enables the proprietors to consume and to pay proportionally for their consumption: and we have shewn how by this contrivance trade and industry are made to flourish.

May we not conclude, from these principles, that as nations who have coin, pay their grand balance out of their coin, to the diminution of it, so nations who have melted down their solid property into symbolical money, must pay their grand balance out of the symbolical money; that is to say, out of the solid property of which it is the symbol?

But this solid property cannot be sent abroad; and it is alleged that nothing but coin can be employed in paying this grand balance. To this I answer, that in such a case the credit of a bank may step in, without which a nation which runs short of coin, and which comes to owe a grand balance must quickly be undone.

We have said that while exchangers transact the balance, the whole load of providing coin lies upon banks. Now the whole solid property melted down, in their paper, is in their hands; because I consider the securities given them for their paper, to be the same as the property itself. Upon this property, there is a yearly interest paid to the bank: this interest, then, must be engaged to foreigners by the bank, in lieu of what is owing to them by the nation; and when once a fund is borrowed upon it abroad, the rest is easy to the bank. This shall be farther explained as we go along.

I do not pretend that the common operation of providing coin, when the grand balance is against a nation, is as simple as I have represented it. I know it is not: and I know also, that I am not in any degree capable to explain the finite combination of mercantile operations necessary to bring it about; but it is no less true, that these combinations may be shortened: because when the whole of them have been gone through, the transaction must end in what I have said; to wit, that either the grand balance must be paid out of the national stock of coin, or it must be furnished by foreigners upon a loan from them; the interest of which must be paid out of that part of the solid property of the nation which has been melted down into paper. I say farther, that were not all this solid property (so melted down) in the hands of banks, who thereby have established to themselves an enormous mercantile credit; there would be no possibility of conducting
such an operation: that is to say, there would be no possibility for nations to run in debt to nations, upon the security of their respective landed property.

Chap. X

Insufficiency of temporary Credits for the Payment of a wrong Balance

I have said, that when the national stock of coin is not sufficient to provide banks with the quantity demanded of them, for the payment of the grand balance, that a loan must take place. To this it may be objected, that a credit is sufficient to procure coin, without having recourse to a formal loan. The difference I make between a loan and a credit consists in this, that by a credit we understand a temporary advance of money, which the person who gives the credit expects to have repaid in a short time, with interest for the advance, and commission for the credit; whereas by a loan we understand the lending of money for an indefinite time, with interest during non-payment.

Now I say, the credit, in this case, will not answer the purpose of supplying a deficiency of coin; unless the deficiency has been accidental, and that a return of coin, from a new favourable grand balance, be quickly expected. The credit will indeed answer the present exigency; but the moment this credit comes to be replaced, it must be replaced either by a loan, or by a supply of coin; or by a renewal of the former credit; but, by the supposition, coin is found to be wanting for paying the grand balance; consequently, nothing but a loan, made by the lenders either in coin, in the metals, or in a liberty to draw upon them, can remove the inconvenience; and if recourse be had to a new credit, instead of the loan, the same difficulty will recur, whenever this credit again comes to be made good by repayment.

Upon the whole, we may conclude, that nations who owe a balance to other nations, must pay it either with their coin, or with their solid property; consequently, the acquisition of coin is, in this particular, as advantageous as the acquisition of lands; but when coin is not to be procured, the transmission of the solid property to foreign creditors is an operation which banks must undertake; because it is they who are obliged either to do this, or to pay in coin.

Chap. XI

Of the Hurt resulting to Banks, when they leave the Payment of a wrong Balance to Exchangers

We have seen in a former chapter, how exchangers and banks are mutually assistant to one another: the exchangers by swelling and supporting circulation; the bank by supplying them with credit for this purpose. While parties are united by a common interest, all goes well: but interest divides, by the same principle that it unites.

No sooner does a nation incur a balance against itself, than exchangers set themselves to work to make a fortune, by conducting the operation of paying it. They appear then in the light of political usurers to a spendthrift heir, who has no guardian. This guardian should be the bank, who upon such occasions (and upon such only) ought to interpose between the nation and her foreign creditors. This it may do, by constituting itself at once debtor for the whole balance, and by taking
foreign exchange into its hand, until such time as it shall have
distributed the debt it has contracted for the nation, among
those individuals who really owe it. This operation performed,
exchange may be left to those who make this branch their
business, because then they will find no opportunity of combining
either against the interest of the bank or of individuals.

When a national bank neglects so necessary a duty, as well as
so necessary a precaution, the whole class of exchangers become
united by a common interest against it; and the country is torn
to pieces, by the fruitless attempt it makes to support itself,
without the help of the only expedient that can relieve it.

Those exchangers having the grand balance to transact with
other nations, make use of their credits with the bank, and of
its notes, in order to draw coin from the bank, which they
export. This throws a great load upon the bank, which is
constantly obliged to provide a sufficient quantity of coin for
answering all demands; for we have laid it down as a principle,
that whatever coin or bills are necessary to pay this grand
balance, in every way it can be transacted, it must ultimately be
paid by the bank; because whoever wants coin for any purpose, and
has bank notes, can force the bank to pay them in coin, or stop
payment.

It cannot, therefore, be said, that exchangers do wrong; nor
can they be blamed for drawing from the bank whatever is wanted
for the purpose of paying to foreigners what is their due; that
is, what is justly owing to them. If they do more, they must hurt
themselves; because whatever is sent abroad more than what is
due, must constitute the rest of the world debtors to the country
which sends out their coin. The consequence of this would be to
turn exchange against foreigners, and to make it favourable for
the nation which is creditor. In this case, were the creditors
still to continue sending coin abroad, they would lose by this
operation, for the same reason that they gain, by that of sending
it out when they are debtors.

It is very common for banks to complain, when coin is hard to
be procured, and when large demands are made upon them; they then
allege unfair dealings against exchangers; they fall to work to
estimate the balance of trade, and endeavour to show that it is
not in reality against the country.

But alas! this is nothing to the purpose; the balance of
trade may be very favourable, although the balance of payments be
greatly against the country; and both must be paid, while the
bank has a shilling of cash, or a note in circulation. So soon
again as the grand balance is fairly paid off, it is impossible
that any one can find an advantage in drawing coin from a bank;
except in the single case of melting down the heavy species, in
nations which give their coinage gratis. Of this we have treated
at sufficient length in another place.

Banks may indeed complain, that men of property sometimes
send their money out of the country, at a time when it is already
drained of its coin; because this raises exchange, and hurts the
trading interest.

Exchange must rise, no doubt, in proportion as the grand
balance is great, and difficult to be paid: But where does the
blame lie? Who ought to provide the coin, or the bills for paying
this grand balance? Have we not shewn that it is the bank alone
who ought to provide coin for the ready answering of their notes?
Have we not said, that the method of doing this is to sacrifice a
part of the interest due upon the obligations in their hands,
which are secured upon the solid property of the country, and to
appropriate this sum of interest for a fund to pay regularly the
interest of the foreign loans, which will procure either the metals themselves, or a power to draw on those places where the nation's creditors reside?

Which of the two has most reason to complain, the bank, because the inhabitants think fit to send their effects out of the country, being either forced so to do by their creditors, or choosing so to do for their private advantage; or the creditors of the bank, and the country in general, when (from the obstructions the bank throws in the way, when required to pay its notes) exchange is forced up to an exorbitant height; the value of what private merchants owe to strangers is raised; and when, by discouraging trade in their hands, a stop is put to manufactures and credit in general?

In a word, the bank has no reason to complain, unless they can make it appear, how any person, exchanger or other, can find an advantage in sending coin out of the country, at a time when there is no demand for it; or when there is no near prospect of a demand which is the same thing? To say that a principle of public spirit should prevent a person from doing with his property what is most to his advantage, for the sake of saving some money to a bank, is supposing the bank to be the public, instead of being the servant of the public.

Another argument to prove that no profit can be made by sending out coin, except when the balance is against a country, is, that we see all runs upon banks stop, the moment exchange becomes favourable. Were there a profit to be made upon sending off coin, independently of the debts to be paid with it, which cannot be paid without it, the same trade would be profitable at all times. As this is not the case, it follows, that the principle we have laid down is just; to wit, that the balance due to foreigners must be paid by banks, while they have a note in circulation; and when once it is fairly paid by them, all extraordinary demands must cease.

We now proceed to another point, to wit, What are the consequences to circulation, when a great balance draws away a large quantity of coin from the bank, and sends it out of the country?

Chap. XII

That I may communicate my ideas with the greater precision, I must here enter into a short detail of some principles, and then reason on a supposition.

It has been said, that the consequence of credit and paper-money, secured on solid property, was to augment the mass of the circulating equivalent, in proportion to the uses found for it.

These uses may be comprehended under two general heads. The first, payment of what one owes; the second, buying what one has occasion for: the one and the other may be called by the general term of ready-money demands.

Whoever has a ready-money demand upon him, and property at the same time, ought to be furnished with money by banks which lend upon mortgage.

Now the state of trade, of manufactures, of modes of living, and of the customary expence of the inhabitants, when taken altogether, regulate and determine what we may call the mass of ready-money demands, that is, of alienation. To operate this multiplicity of payments, a certain proportion of money is necessary. This proportion again may increase or diminish according to circumstances; although the quantity of alienation
should continue the same.

To make this evident, let us suppose the accounts of a whole city kept by one man; alienation may go on without any payment at all, until accounts be cleared; and then nothing will be to be paid, except general balances upon the whole. This however is only by the bye. The point in hand is to agree, that a certain sum of money is necessary for carrying on domestic alienation; that is, for satisfying ready-money demands: let us call this quantity (A).

Next, in most countries in Europe (I may say all), it is customary to circulate coin, which, for many uses, is found fitter than paper (no matter for what reason); custom has established it, and with custom even statesmen must comply.

The paper-money is generally made payable in coin; from custom also. Now, according to the manners of the country, more or less coin will be required for domestic circulation. Let it be observed, that hitherto we have not attended to foreign circulation, of which presently: and I say, that the manners of a country may make more or less coin necessary, for circulating the same quantity of paper; merchants, for instance, circulate much paper and little coin; gamesters circulate much coin and little paper: one example is sufficient.

Let this quantity of coin, necessary for circulating the paper-money, be called (B), and let the paper-money be called (C); consequently (A) will be equal to the sum of (B) and (C). Again, we have said, that all balances owing by nation to nation, must be paid either in coin, or in the metals, or in bills; and that bank paper can be of no use in such payments. Let the quantity of the metals, coin, or bills, going out or coming into the country for payment of such balance, be called (D).

These short designations premised, we may reason with more precision. (A) is the total mass of money (coin and paper) necessary at home: (A) is composed of (B) the coin, and of (C) the paper-money, and (D) stands for that mass of coin, or metal, or bills, which goes and comes according as the grand balance is favourable or unfavourable with other nations.

Now, from what has been said, we may determine that there should at all times remain in the country, or in the bank, a quantity of coin equal to (B); and if this be ever found to fall short, the bank does not discharge its duty. It is unnecessary to determine what part of (B) should be locked up in the bank, and what part should remain in circulation: banks themselves cannot determine this question: all we need to say is, that it is the profit of banks to accustom people to the use of paper-money as much as possible; and therefore they will draw to themselves as much coin as they can.

When a favourable balance of trade brings the price of exchange below par, and brings coin into the country, the consequence is, either to animate trade and industry, to augment the mass of payments, to swell (A), and still to preserve (C) in circulation; or else to make (A) regorge, so as to sink the interest of money below the bank lending price: in this case people will carry back the regorging part of (C) to the bank, and withdraw their securities; which is consolidating, as we have called it, the property which had been formerly melted down, for want of this circulating equivalent (money).

This is constantly the consequence of a stagnation of paper, from an overcharge of it, thrown into circulation. It returns upon the bank, and diminishes the mass of their securities, but never the mass of their coin.

From this we may conclude, that the circulation of a country
can only absorb a determinate quantity of money (coin and paper); and that the less use they make of coin, the more use they will make of paper, and vice versa.

We may also conclude, that when trade and alienation increase, caeteris paribus, so will money; that is, more solid property will be melted down; and when trade and alienation diminish, caeteris paribus, so will money; that is, some of the solid property formerly melted down, will consolidate, as we have called it.

These vicissitudes in the mass of circulation are not peculiar to paper currency. In countries where nothing circulates but the metals, the case is the same; the operation only is more awkward and expensive. When coin becomes scarce, it is hardly possible, in remote provinces, to find any credit at all; and in the centre of circulation, the use of it (interest) must rise very considerably, and must stand high for some time, before even intelligent merchants will import bullion to the mint; which is the only bank they have to fit it for circulation. When the metal is coined, then men of property are enabled to borrow, or to sell their lands. On the other hand, when a favourable balance pours in a superfluity of coin, which at the same time cuts off the demands of trade for sending it abroad, it frequently falls into coffers; where it becomes as useless as if it were in the mine; and this clumsy circulation, as I may call it, prevents coin from coming into the hands of those who would have occasion for it, did they but know where to come at it. Paper-money, on the other hand, when banks and trade are well established, is always to be found. Thus, in an instant, paper-money either creates or extinguishes an interest equal to its value, in favour of the possessor. No part of it lies dead, not for a day, when employed in trade: it is not so of coin.

Let us now suppose a bank established in a country which owes a balance to other nations.

In this case, the bank must possess, or be able to command, a sum of coin or bills equal to (B) and (D); (B) for domestic, and (D) for foreign circulation.

Those who owe this balance (D), and who are supposed to have value for it, in the currency of the country, must, in order to pay it, either exhaust a part of (B), by sending it away, or they must carry part of (C) to the bank, to be paid for in coin. If they pick up a part of (B) in the country, then the coin in circulation, being diminished below its proportion, the possessors of (C) will come upon the bank for a supply, in order to make up (B) to its former standard. Banks complain without reason. If they carry part of (C) to be changed at the bank, for the payment of (D), they thereby diminish the quantity of (C); consequently there will be a demand upon the bank for more notes, to support domestic circulation; because those notes which have been paid in coin by the bank are returned to the bank, and have diminished the mass of (C); which therefore must be replaced by a new melting down of solid property.

Now I must here observe, that this recruit of notes, supposed to be issued by the bank, in order to fill up (C) to the level, really implies an addition made to the mass of securities formerly lodged with the bank: and represents, not improperly, that part of the landed property of a country which the bank must dispose of to foreigners, in order to procure from them the coin or bills necessary for answering the demand of (D).

When notes, therefore, are carried to the bank for payment of debts due to the bank, they then diminish the mass of solid property melted down in the securities lodged in the bank; but
when notes are carried to the bank, to be converted into coin or bills, for foreign exportation, they do not diminish the mass of the securities: on the contrary, the consequence is, to pave the way for the augmentation of them; because I suppose that these notes, so given in to the bank, and taken out of the circle, are to be replaced by the bank, to domestic circulation, to which they belonged; and the bank must be at the expense of turning into coin or foreign bills, the value of these additional securities granted for this new recruit of notes.

Is not this quite consistent with reason, fact, and common sense? If a country contract debts to foreigners, are not the consequences just the same as when one man contracts a debt to another in the same society? Must not the ultimate consequence of such debts be, that they must be paid, either with the coin, with the moveables, or with the solid property of the debtor, transferred to the creditor, in lieu of the money owing?

When a nation can pay with its coin, or with its effects (that is to say, with its product and manufactures), the operation is easily and mechanically performed by the means of trade: when these objects are it, not sufficient; then land, or an annual and perpetual income out of must make up the deficiency; in which case more skill and expence is required; and this expence falling upon banks, makes their trade less lucrative than in times when commerce stands at par, or is bringing in a balance.

Were trade to run constantly against a country, the consequence would be, that the whole property of it would, by degrees, be transferred to foreigners. But in this case, banks never could neglect laying down a plan whereby to avoid a constant loss similar to what they casually sustain, when such a revolution comes suddenly or unexpectedly upon them.

The method would be, to establish an annual subscription abroad, for borrowing a sum equivalent to the grand balance; the condition being to pay the interest of the subscriptions out of the revenue of the country.

If the security offered be good, there is no fear but subscribers will be found, while there is an ounce of gold and silver in Europe.

The bank of England has an expedient of another nature, in what they call their bank circulation; which is a premium granted to certain persons, upon an obligation to pay a certain sum of coin upon demand. This is done with a view to answer upon pressing occasions. But England being a prosperous trading nation, which seldom has any considerable grand balance against her (except in time of war, when the public borrowings supply in a great measure the deficiency, as shall be afterwards explained), this bank circulation is turned into a job; the subscriptions being lucrative, are distributed among the proprietors themselves, who make no provision for the demand; and were the demand again to come upon them (as has been the case) the subscribers would, as formerly, make a call on the bank itself, by picking up their notes, and pay their subscriptions with the bank's own coin.

To obviate this inconvenience, which was severely felt in the year 1745, the bank of England should have opened a subscription for a perpetual loan in some foreign country; Holland, for example; where she might have procured large quantities of foreign coin: such a seasonable supply would have proved a real augmentation of the metals; the supply they got from their own domestic subscribers was only fictitious.(3*)

But banks in prosperous trading nations sit down with casual
and temporary inconveniences; and exchangers carry on a profitable trade, whether the nation be gaining or losing all the while. For such nations, and such only, are banks advantageous. Were banks established in Spain, Portugal, or any other country which pays a constant balance from the produce of their mines, they would only help on their ruin a little faster.

In the infancy of banking, and in countries where the true principles of the trade are not well understood, we find banks taking a general alarm, whenever a wrong balance of trade occasions a run upon them. This terror drives them to expedients for supporting their credit, which we are now to examine, and which we shall find to have a quite contrary tendency.

The better to explain this combination, we must recall to mind, that the payment of the grand balance in coin or bills is unavoidable to banks. We have said that this balance is commonly paid by exchangers, who pick up the coin in circulation; a thing the bank cannot prevent. This we have called exhausting a part of (B). the consequence of this is, to make the proprietors of (C) come upon the bank, and demand coin for filling up (B): to this the bank must also agree. But by these operations (C) comes to be diminished, below the level necessary for carrying on trade, industry, and alienation: upon which I have said there commonly comes an application to the bank to give more credit, in order to support domestic circulation, which if complied with, more solid property is consequently melted down.

This swells the mass of securities, and raises (A) to its former level. But here the bank has a choice, and may refuse to grant more credit: in the former operations it had none. Now if the bank, from a terror of being drained of coin, should refuse to issue notes upon new credits, for the demands of domestic circulation; in this case, I say, they fail in their duty to the nation, as banks, and hurt their own interest. As to their duty to the nation, I shall not insist upon it; but I think I can demonstrate that they fail in their manner of reasoning, with respect to their own interest, and that is enough.

I say, then, that as long as there is one single note in circulation, and any part of a grand balance owing, this note will come upon the bank for payment, without a possibility of its avoiding the demand. Refusing therefore credit, while any notes remain in the hands of the public, is refusing an interest which may help to make up the past losses: but of this more hereafter.

In the next place, I think I have demonstrated, that as soon as the grand balance is paid, it is impossible that any more demands for coin can come upon the bank for exportation. Why then should a bank do so signal a prejudice to their country, as to refuse to lend them paper, which the ready-money demands of the country must keep in circulation? And why do this at so great a loss to themselves? It has been said above, and I think with justice, that this recruit, issued to fill up circulation, adds to the mass of bank securities, and very properly represents that part of the income of the solid property of the country, which the bank must dispose of to foreigners, in order to procure from them the coin or bills necessary for answering the demand for payment of a grand balance.

In this light nothing can appear more imprudent, than to refuse credit. A bank is forced to pay to the last farthing of this balance; by paying it, the notes that were necessary for domestic circulation are returned to them; and they refuse to replace them, for fear that their supplying circulation should create a new balance against them! This is voluntarily taking on
themselves all the loss of banking, and rejecting the advantages of it.

Such management may be prudent when the circulating notes of a bank are very few, and when the balance is very great. In this case, indeed, were the thing possible, it might be prudent to give over banking for a while, till matters took a favourable turn. But if we suppose their circulating notes to exceed the balance due, then all the hurt which can be done is done already; and the more notes that are issued, and the more credit that is given, must be so much the better for the bank; because the interest due upon all that are issued above the balance, must be clear profit to the bank.

To bring what has been said within a narrower compass, and to lay it under our eye at once, let us call the sum of money necessary for carrying on the domestic circulation of a country, where a bank is established, \(A\).

The specie itself, to carry it on, \(B\).

The balances to other nations, \(D\).

The bank must be able to command coin and credit equal to the sum of \(B\) and \(D\). If they have in credit the value of \(D\) in any foreign place, where a general circulation of exchange is carried on, then they have occasion only for \(B\) at home, and can furnish bills to the amount of \(D\).

But in furnishing bills to the amount of \(D\), those who receive the bills from the bank, must pay to the bank the value of these bills in bank notes; and the notes with which they pay for the bills, must be taken out of \(A\), which \(A\) we suppose to be necessary for carrying on domestic circulation. This diminution upon the value of \(A\), will occasion a new demand for notes in order to carry \(A\) to its former extent; and the bank at issuing the notes demanded, will receive new securities from those who demand them. Farther, the interest paid upon these new securities, will answer for the payment of the interest of the money owing to foreigners, in consequence of the bills drawn upon them to the order of those who bought the bills from the bank for the payment of \(D\).

This transaction concluded, the consequence will be: that \(A\) will be made up to the complete sum necessary for domestic circulation; and that the interest of the money borrowed from foreigners, in order to acquit the balance \(D\), will be paid out of the interest paid upon the new securities.

As soon as \(D\) is thus completely paid off, were coin drawn from the bank, and sent away by private people, (exchangers, etc.) it would, form a balance due to the country; which balance would render exchange favourable, and would occasion a loss to those who sent away the coin. During this period, the more credit the bank gives, so much more will its profits increase, and no demand can be made upon it for coin.

To conclude: Let banks never complain of those who demand coin of them, except in the case when it is demanded in order to be melted down, or for domestic circulation, which may as well be carried on with paper.

And so soon as a demand for coin to pay a foreign balance begins, it is then both the duty and interest of all good citizens to be as assistant as possible to banks, by contenting themselves with paper for their own occasions, and by throwing into the bank all the coin which casually falls into their hands. As for duty, I shall offer no argument to enforce it. But I say it becomes a national concern to assist the bank; because the loss incurred by the bank in procuring coin, falls ultimately on every individual, by raising exchange; by raising prices; by
raising the interest of money to be borrowed; and, last of all, by constituting a perpetual interest to be paid to foreigners, out of the revenue of the solid property of the country. Upon such occasions, a good citizen ought to blush at pulling out a purse, when his own interest, and that of his country, should make him satisfied with a pocket book.

Chap. XIII

Continuation of the Same Subject; and of the Principles upon which Banks ought to borrow Abroad, and give credit at Home.

In every question relative to this subject, we must return to principles. This is the only sure method of avoiding error. The more intelligent reader, therefore, must excuse short repetitions, and consider them as a sacrifice he is making to those of slower capacities, to whom they are useful.

The principle of banking upon mortgage, is to lend paper money, and to give credit to those who have property, and a desire to melt it down. This is calculated for the benefit of trade, and for an encouragement to industry. If such banks, therefore, borrow, it must be done consistently with the principles upon which their banking is founded. If the borrowing should tend to destroy those advantages which their lending had procured, then the operation is contrary to principles, and abusive. So much for recapitulation.

While trade flourishes and brings in a balance, banks never have occasion to borrow; it is then they lend and give credit. This, I believe, we may take for granted.

When the country where the bank is established begins to owe a balance to other nations, the bank, as we have seen in the last chapter, is obliged to pay it off in coin or in bills. We have there shewn, that in such cases it is inconsistent with their principles and interest, to withhold lending and giving credit, as far as is necessary for keeping up the fund of domestic circulation to that standard which alienation and ready-money demands require.

To refuse credit, and at the same time to borrow at home, must then, at first sight, appear to be doubly inconsistent. But in order to set this point in the clearest light I am capable, I shall reason upon a supposition analogous to the situation of the Scotch banks, and by this means avoid abstract reasoning as much as I can.

Let me then suppose that Scotland, during the last years of the war, ended in 1763, and ever since (I write in 1764), from the unavoidable distress of the times, was obliged, first, to import considerable quantities of grain in some bad years; secondly, to refund the English loans of money settled there in former times; thirdly, to furnish some of the inhabitants with funds, which they thought fit to place in England; fourthly, to pay the amount of additional taxes imposed during the war; while, at the same time, several of the ordinary resources were withdrawn; such as, first, a great part of the industrious inhabitants who went to supply the fleets and armies; secondly, the absence of the ordinary contingent of troops; and thirdly, the cutting off of several beneficial articles of commerce. Let me suppose, I say, that from the total of these losses incurred, and advantages suspended, Scotland has lost annually, for eight years past, two hundred thousand pounds. I am no competent judge of the exactness of this estimate, it is of no consequence to the argument; but I think I have carried it, as I wish to do, rather
beyond the truth.

On the other hand, let me suppose that the sum of currency in paper, sufficient (with the little coin there was) to circulate the whole of the alienations in Scotland (that is to say, the whole domestic circulation, supposing no balance to be owing to England or other countries) to be one million sterling. I am persuaded I am here below the true estimate, but no matter. Is it not evident, from this supposition, and from the principles we have been deducing, that unless the banks of Scotland had borrowed every year 200,000 l. sterling, and alienated annually in favour of England, a fund for paying the interest of two hundred thousand pounds capital; the million of Scots currency would have been diminished in proportion to the deficiency: and would not the consequence of this be, caeteris paribus, to bring the currency below the demand for it; and, consequently, to hurt trade, industry, and alienation?

Now supposing the banks, instead of borrowing in England a fund equal to this grand balance (as I have said they should do), to remain in consternation and inactivity, giving the whole of their attention to the providing of coin and bills to supply the demand of exchangers, whose business it is to send out this annual balance; what would the consequence be?

I answer, that if the banks, in such a case, do not follow the plan I have proposed, the consequence will be, that two hundred thousand pounds of their paper will be, the first year, taken out of the domestic circulation of Scotland; will be carried to the bank, and coin demanded for it. If the coin is found in the bank, it is well: it goes away, and leaves the paper circulation of Scotland at 800,000 l. This void must occasion applications to the bank for credits to supply it. Is it not then the interest of the bank to supply it? We have said in the former chapters that it is. But now let us suppose it to be objected, that if banks should issue notes at such a time, their cash having been exhausted, they would be obliged to stop altogether, upon a return of those notes issued upon additional credits.

To this I repeat again, because of the importance of the subject, that notes issued to support the demand of circulation never can return upon the bank, so as to form a demand for coin; and if they do return, it must be in order to extinguish the securities granted by those who have credit in banks (I except always that regular demand for coin, at all times necessary for circulating the paper for domestic uses); and if those notes return of themselves, without being called in, this phaenomenon would be a proof that circulation is diminishing of itself: but supposing such a case to happen, it is plain that such return can produce no call for coin; because when the notes return it is not for coin, but for acquitting an obligation or mortgage, as has been often repeated.

Notes are paid in, I say, because circulation has thrown them out. Now if circulation has thrown them out as superfluous, it never can have occasion for coin in their stead; because coin answers the same purpose.

But then it is urged that they do not return, because circulation has thrown them out, but because coin is wanted: be it so. Then we must say, that circulation is not diminished, as we at first supposed; but that the return of another year's balance, makes a new demand for coin necessary.

Now I ask, how the withholding of this 200,000 l. from circulation, after the first year's drain, can prevent the balance from returning? There are by the supposition still 800,000 l. of notes in the country; will not exchangers get hold
of two hundred thousand out of this fund, as well as out of the million? For he who owes, must pay, that is, must circulate. It is the circulation of the industrious only, and of the rich; in short, it is buying, that is to say, voluntary circulation, which is stopped for want of currency: paying, that is, involuntary circulation, never can be stopped; debtors must find money, as long as there is any in the country, were they to give an acre for a shilling, or a house for half a crown. Now those who owe this foreign balance are debtors; consequently, they must draw 200,000 l. out of circulation, the second year as well as the first, whether the standard million be filled up or not. The withholding, therefore, the credits demanded upon the first diminution, has not the least effect in preventing the demand for coin the year following: it only distresses the country, raising exchange, and the interest of money, by rendering money scarce; and, what is the most absurd of all, it deprives the bank of 10,000 l. a year interest, at 5 per cent upon 200,000 l. which it may issue anew.

Suppose again, that a second year's demand for a balance of 200,000 l. comes upon the bank: if the coin is out, as we may suppose that after the first year's drain it will not be in great plenty, expedients must be fallen upon. In such a case, if the bank do not at once fairly borrow at London (without any obligation to repay the capital) a sum of 200,000 l. and pay for it a regular interest, according to the rate of money, as government does, half yearly, on the change of London, it will be involved in expedients which will create a monstrous circulation of coin in the bank, perhaps double of the sum required, and all these operations will end (as to the bank) in paying this sum out of the mass of its securities or stock. If the bank should borrow this 200,000 l. in London, in the manner we have said, the circulating fund of coin will be noise diminished; there will be no call extra-ordinary for coin, no rising of exchange; the bank will have this in its hands; and if it rise, it will be the bank, not the exchangers who will profit by it.

But let us suppose that instead of this, it should have recourse to temporary credits upon which the capital is constantly demandable, or to other expedients still less effectual for answering the call which is to come upon it for the second year's balance; what will be the consequence? To this I answer, that those merchants, or others who owe the balance, will apply to exchangers for bills, for which they must pay a high exchange: these bills will be bought from the exchangers with notes (taken out of circulation), and will reduce this to 600,000 l. the exchangers ill carry these to the bank and demand coin. If the bank should make use of an optional clause, to pay in six months, with interest at 5 per cent the exchangers ill obtain six months' credit at London, and in consequence of this, their bills will be honoured and paid. This credit, however, costs them money, which is added to the exchange: the bank, at the end of six months, must pay 200,000 l. sterling in coin, which in the interval it must provide from London. It must pay also six months, interest upon the paper formerly presented by the exchanger: add to the account, that bringing down the coin must cost the bank at least 12 shillings per hundred pounds, and as much more to the exchanger who receives it in order to send it back again; and after all these intricate operations which have cost so much trouble, ill blood, stagnation and diminution of circulation, expence in exchange to the debtors of the balance, stress of credit upon exchangers for procuring so large advances with commission, etc. expence to the bank in providing coin,
expence to the exchangers in returning it: after all, I say, the
operation ends in this; that 200,000 l. of notes, taken out of
the circulation of Scotland returns to the bank, who must have
provided at last, either coin, or credit at London for them. This
return of 200,000 l. of notes does not diminish the mass of those
obligations lodged in the bank, in virtue of which they are
creditors upon the proprietors of Scotland: consequently the bank
has constituted itself debtor to England for those funds which
have been torn from it in the manner above described:
consequently, had it, by a permanent loan, constituted itself
voluntarily debtor to England from the beginning, it would have
paid no more, nay less than it has been obliged to pay;
circulation would not have lost 200,000 l. and the bank would
have had the interest of 200,000 l. added to its former
securities, which would compensate (pro tanto at least) the
expence of borrowing this sum in England upon a permanent fund.
Instead of which it compensates the interest taken out interest
of a temporary loan, with the same sum of of the securities in
its hand. If, therefore, from an ill-grounded fear of issuing as
much paper as is demanded, it shall withheld it, there will
result to itself a loss equal to the interest of what it refuses
to lend; that is to say, there will be a lucrum cessans to the
bank of the interest of this 200,000 l. at 5 per cent or 10,000
l. a year; which other banking companies will fill up, and
thereby extend their circulation.

If, besides refusing credits, it should call in any part of
those credits already given, it will still more diminish
circulation: but then by this operation it will diminish the mass
of its securities, and so diminish the sum of the interest
annually paid to itself. If it go farther and borrow money at
home, such loans will be made in its own paper, which will
diminish farther the mass of circulation; and if it go on
recalling its credits and mortgages, it will soon draw every bit
of its paper out of circulation, and remain creditor upon
Scotland for the balance only it has paid to England on her
account. Such are the consequences, when a bank which lends upon
private security withholds credit, at a time when a national
balance is due, and when applications are made to it for new
credits, to fill up the void of circulation occasioned by the
operations used for the payment of the balance: such also are the
additional fatal consequences, when to this it adds so
inconsistent an operation as that of borrowing its own notes, or
recalling the credits it had formerly given.

By the first step, namely, by refusing credit, it appears
passive only in allowing natural causes to destroy both the bank
and the nation, as I think has been proved.

By the second, namely, by borrowing its own notes, it is
active in destroying both itself and the country.

What benefit can ever a bank which lends upon private
security reap by borrowing within the country of which it is the
centre of circulation; nay, what benefit can it ever reap from
withholding its notes from those who can give good security for
them!

Every penny it borrows, or calls in, circumscribes its own
profits, while it distresses the country. After considering all
circumstances, I can discover but one motive which (through a
false light) may engage a bank to this step, to wit, jealousy of
other banks.

As this speculation is designed to illustrate the principles
of circulation, from circumstances relative to the present state
of the Scotch banks, let us call things by their names.
The banks of Edinburgh resemble, more than any other in Scotland, a national bank. Let me then suppose all that can be supposed, viz. that the abundance of their paper has given occasion to smaller banks to pick up from them every shilling of coin which these smaller banks have ever had; and that these have had the address also to throw the whole load of the balance upon those of Edinburgh: let this be supposed, more cannot, and let us allow farther, that this must ever continue to be the case. In these circumstances, what motive can the banks of Edinburgh have for withholding credit from those who are able to give security? What motive can they have for borrowing their own notes? Indeed I can account for this plan of management in no other way than by supposing, that, disgusted at the long continuance of an unfavourable balance of trade against their country, and vexed to find the whole load of it thrown upon themselves, they have taken the resolution to abandon the trade, and are taking this method to recall their paper altogether.

Let me suppose the contrary, and I shall not be able to discover how it is possible that such a conduct can turn to their own advantage, throwing out all consideration for the public good, which for some time, no doubt, must be greatly hurt by it.

As long as any considerable quantity of their notes is in circulation, and while the principal exchangers reside at Edinburgh, they never can avoid the loss of paying the balance; consequently, by refusing to fill up the void occasioned by the return of their notes, they deliver the whole profit of replacing them to the other banks, their rivals.

Let me next estimate the loss they sustain by furnishing coin to the other banks for the payment of the balance; and then compare this with what they lose by not keeping circulation full.

I shall suppose the balance to cost them two hundred thousand pounds per annum; and I shall suppose that all the smaller banks put together have occasion for two hundred thousand pounds in their chests: Is not this computation far above what can possibly be supposed?

Will it be allowed that if the banks of Edinburgh willingly submit to pay the whole of the bills of exchange demanded on London, for this balance, they will have at least the preference in replacing this sum to circulation?

If they pay the balance of 200,000 l. a like sum of their notes must come in to them, without diminishing one shilling of the interest paid upon the securities lodged in their banks; consequently, the only loss incurred is the difference between the interest they receive, which is 5 per cent and what it would cost them to borrow a like sum in London, and to remit the interest of this sum twice a year.

Now the value of a 4 per cent is at present about 96; so in paying 40 s. half yearly on the change of London, the Edinburgh banks may have at London a capital of 96 l. Let me call it only 94 l. supposing their credit not to be quite so good as that of the funds. I think it as good to the full; and I am sure it is so. At this rate, the 200,000 l. will cost them an interest of 8510 l. instead of the 10,000 l. which they will receive for the like sum added to their former securities. Now let me suppose that they shall have recourse to exchangers to remit this interest, and that they shall pay for it 5 per cent (which is an absurd supposition, as they will have the exchange entirely in their own hands) and that they give all the bills for the 200,000 l. at par (also a ridiculous supposition); the 5 per cent on 8510 l. is 425 l. 10 s. which added to the interest, makes 8935 l. 10 s. so that after all, they will have upon the whole transaction
Next, as to the loss incurred in furnishing 200,000 l. to the other banks: If this coin be demanded of them by those banks, the demanders must, for this purpose, draw 200,000 l. of Edinburgh notes out of the circulation of Scotland; which I have supposed may be replaced in some little time by the Edinburgh-banks; consequently, if this sum also be borrowed at London, there will result upon this operation, as well as upon the last, a profit of 1064 l. 10 s. But then indeed they must be at the expense of bringing down the coin borrowed, at 12 s. per 100 l. because those banks will insist upon having coin, and refuse bills on London. This will cost 1200 l. from which deduct the profit of 1064 l. 10 s. gained by the first operation, remains of loss upon this last transaction 135 l. 10 s. no great sum. (4*) Does it not follow from this reasoning, that the banks of Edinburgh will have the whole business of exchange in their own hands? What exchanger then will enter into competition with them? The domestic transactions with the merchants and manufacturers of Scotland will be their only business. Farther:

What prevents the banks of Edinburgh to have offices in every trading town in Scotland, where their notes may be regularly paid on presentation, and new credits given as circulation demands them?

The only objection I can find to this plan of banking, is the difficulty of finding credit at London to borrow such large sums.

This, I think, may also be removed, from the plain principles of credit. If the banks of Edinburgh enter into a fair coalition, as they ought to do, I think, in order to form really a national bank, totally independent of that of England; may they not open a subscription at London, and establish a regular fund of their own, as well as any other company, such as the India, or South Sea? By borrowing in the beginning at a small advance of interest above the funds, and paying as regularly as government does, will not all those who make a trade of buying and selling stock fill their loan, rather than invest it in any other carrying a less interest? And if the whole land securities, and stocks of those banks at Edinburgh be pledged for this loan, will it not stand on as good a bottom as any fund upon earth? And can it be doubted but parliament will encourage such a scheme, upon laying the affairs of Scotland and the banks properly before them?

By this means they will really become a national bank: because England seems at present to be to Scotland, what all the rest of the world is to England. Now, the bank of England has no such fund of credit on the continent, that I know; and were that country to fall into as great distress, by a heavy balance, as Scotland has, she would find as many difficulties in extricating herself by domestic borrowings, bank circulation, etc. as Scotland has found by the like domestic expedients. She would then be obliged, for her relief, to have recourse to a fund opened in Holland, Spain, or Portugal, like to what I propose for Scotland with respect to England.

I have heard it alleged, that the whole distress occasioned to the banks and circulation of Scotland, was occasioned by a false step taken by them, some years ago; at the time when the lowness of the English funds, and a prospect of a peace, occasioned great remittances from Scotland, and a withdrawing of the large capital of, perhaps, 500,000 l. owing in Scotland to English persons of property.

At that time, it is said, the banks imprudently launched out in giving extensive credits to the debtors of those capitals, and to those who wanted to remit the funds they had secured in the
hands of people who could not pay them; that this threw a load of paper into circulation, which it could not vent, being far beyond the extent of it; and that, consequently, the paper came back upon the bank, produced a demand for coin, which soon exhausted, in a manner, all that was in Scotland; and that the country has never been able to recover itself since.

This representation is plausible, and has an air of being founded on principles: in order therefore to serve as a further illustration of the subject of circulation, I shall point out where the fallacy of it lies.

It is said the banks did wrong in giving those credits. I say, they did right; but they did wrong in not providing against the consequences.

Had they refused the credits, the English and other creditors would have fallen directly upon their debtors, and obliged them to pay, by a sale of their lands, at an under value; which, I think, would have been an infinite loss to Scotland. In this way the price would have been paid in bank paper, taken out of circulation; for we have said, that he who owes must pay, be the consequence what it will. This paper would have come upon the banks at any rate: and being a balance due to strangers, must have been paid by the banks. The banks therefore did right to supply the credits demanded; but then they might have foreseen that the whole load of paying those debts would fall upon them; which they being in no capacity to do, should have immediately pledged in England, the interest of the credits they had given out, after supplying the want of Scots circulation, and when the notes came in, they would have had at London the capital of that interest prepared for paying them off, and no inconvenience would have been found.

The only thing then the banks seem to have misjudged, was the granting those credits too hastily, and to people who perhaps would not have invested their funds in England, had it not been from their facility in giving credit.

Banks therefore should well examine the state of circulation, and of the grand balance, in difficult times, before they give credit. If circulation be full, they may, with justice, suspect that the credits are demanded with a view of expediency, to transport property out of the country, which otherwise may remain. But in favour of circulation, or in favour of what may be exacted by foreign creditors, banks never can misjudge it in giving credit; because, if they should refuse to do it, they in the first place incur a loss themselves; and in the second place, they diminish the fund of circulation, and thereby hurt the country. Now when, at such times, a credit is asked or given, that demand is a warning to banks to prepare; and by preparing they are ready, and no loss is incurred.

Upon the whole, it is an unspeakable advantage to a nation to have her foreign debts paid by her bank, rather than to remain exposed to the demands of private foreign creditors; because, when a bank pays them, I suppose her to do it upon a loan in the funding way, where the capital is not demandable by the creditor; whereas when private citizens are debtors to strangers, the capitals are always demandable; and when a call comes suddenly and unexpectedly, the country is distressed. What would become of Great Britain, were all her debts to strangers demandable at any time? It is the individuals who owe, in effect, all that is due to foreigners; because they pay the interest: but they pay this interest to the public; and the public appears as the debtor to all strangers, who have no right to exact the capital, although the state may set itself free by making payment of it whenever it
is convenient.

I have said above, that after all my reasonings, I could discover but one motive to induce a bank to withhold credit at a time when it was demanded for the use of domestic circulation, viz. jealousy of other banks. What my combinations could not then discover, my inquiries have since unfolded.

It is said, that the banks finding so great a propensity in the inhabitants of Scotland to consume foreign manufactures and produce, fell upon this expedient for calling in the old, and for refusing new credits, in order to cut off such branches of hurtful luxury and expense.

Could the execution of such a plan prove a remedy against the vice complained of, this circumstance alone would more clearly demonstrate the utility of banks upon mortgage, than all I have been able to say in favour of this establishment.

Let us therefore have recourse to our principles, in order to discover what influence a bank can have in this particular.

We have distinguished between necessary and voluntary circulation: the necessary has the payment of debts; the voluntary has buying for its object.

We have said that he who owes is either a bankrupt, or must pay, as long as there is a shilling in the country.

But he who buys, or inclines to buy, must have money, or he can buy nothing; for if he buys on credit, he then falls immediately into the former category, and must pay.

By withholding money for the uses of circulation, which banks may do for some time, buying may be stopped; paying never can.

Now if the mass of money in circulation be brought so low, as that the higher classes of the people, who consume foreign productions, cannot find money to buy with, what are we to suppose will be the case with manufacturers, and with the merchants who buy up their work? Could this operation of the bank affect the higher classes only, by curbing their anti-patriot expences, without affecting the lower classes, by curbing their industry, I should think it an admirable discovery. If it even could be made to affect those merchants and shopkeepers only, who deal in foreign commodities, so as to discourage them from carrying on that business, there would result from it a notable advantage.

But alas! wherein are they hurt? They trade in such commodities, not because they are bad citizens, but because they are freemen, and seek for profit wherever the laws permit.

Perhaps, they find more difficulty than other people in forcing coin from the bank, as matters stand: perhaps, they are loaded with opprobrious apppellations for extorting such payments from the bank: perhaps, their credits with the bank are recalled. But must not those who buy from them, pay them? And must not the bank give coin, or bills, for the notes they receive, when presented for payment? Why, therefore, throw difficulties in the way? All the world knows, that no human engine can prevent a merchant from laying all the expences of his trade upon the consumer. Correct the taste of the consumers, and you may stop the trade: no other restraint will be of any consequence. But in order to correct the taste of consumers, do not deprive them absolutely of money; because the money the extravagant landlord receives, comes from the industrious farmer, for the price of his grain, etc. Would it be a good scheme for preventing soldiers from drinking brandy, to cut off their subsistence-money? Give a drunkard but a penny a day, it will go for liquor; and those who are fond of foreign clothing, will take the price of it from their bellies, to put it on their backs.
If this scheme of the bank's withholding credit, prove, at present, any check to those dealers in English goods, it will be but for a very short time. They have been taken by surprize; and perhaps, thrown into inconveniences from an unexpected change of bank management; but as long as there is a demand for such commodities, there will be a supply of them; and when people owe, they must pay. No operation of a bank can prevent this.

I must, therefore, according to principles, disapprove of this public-spirited attempt in the banks of Edinburgh; because, if it should succeed, it will have the effect of ruining all the trade and industry of Scotland, in order to prevent the sale of English goods: and if it does not succeed, which is more than probable, from the assiduity of other banks in supplying credit, it will have the effect of ruining the banks of Edinburgh themselves.

This step, of calling in the bank credits, and opening a subscription for a loan, is represented by others in a light somewhat different.

By these it is alleged, that in the beginning of the year 1762, when the Edinburgh banks withdrew 1/4 of all their cash accompts, and opened a subscription for borrowing their own notes, at an interest of 4, and even 5 per cent the demand for money, to send to England, was not occasioned by the great balance owing by Scotland, but to the high premium money then bore at London; because says the author of a letter to J... F..... Esq; published at that time,

'This demand arises from a profit on carrying money to London, as a commodity, and not as a balance of trade.'

It is not easy to comprehend how there could be much profit in carrying money to London at 3 per cent loss by exchange, from Scotland, where it bore 5 per cent interest.

It is true, that at certain times, there were considerable profits made upon stock-jobbing; by which some won, and others were ruined. I agree, that the country was greatly hurt by the folly of those who played away their own property, and by the roguery of others, who borrowed that of their neighbours, with an intention of gaming at their risk. But is this a vice which any bank can correct, while it has a note in circulation?

Had it therefore been a sentiment of patriotism which moved the banks to such a plan of conduct, I say they thereby did more hurt to industry, by contracting circulation, than good to Scotland, by attempting a thing which was beyond their power to accomplish.

If they were moved to it by a principle of self-preservation, I say they lost their aim, by cutting off their own profits, which would have done much more than indemnify them for the loss of borrowing at London, at the time when money there was hardest to be got: for whatever exorbitant expence of exchange gamesters may incur, to procure ready money to play with, the rate of the stocks at that time never was so low, as to afford a profit upon money remitted at 3 per cent loss by exchange, while that money was bearing 5 per cent interest at home.

The lowest rate of stocks was in January 1762. Towards the end of that month 3 per cents fell to 63 1/4: this makes the value of money to be about 4 l. 12 s. per cent. In these funds, certainly, no body could invest, with profit, money sent from Scotland.

After the new subscription had been open for some time, scrip indeed, or 4 per cent fell in this month so low as 74 1/2, that is, money rose to 5.4 per cent whereas had scrip stood at the proportion of the 3 per cents it should have been worth about 84:
but at the beginning of a war with Spain, when the minds of men were depressed, and filled with apprehensions, and when a new loan was perhaps expected at a higher interest than ever government had given, was it natural for people to be fond of investing in a 4 per cent stock, which was to fall to 3 per cent in a few years?

Besides, let us examine the profit to be made by investing even in this fund. 100 l. produced in Scotland 5 l. interest, this capital remitted to London at 3 per cent exchange, was reduced to 97 l. now if 74.5 l. produced 4 l. the produce of 97 l. would be about 5 l. 4 s. Would any man for the sake of 1/5 per cent advance of interest on money remitted, ever think of sending large sums to London to be invested in a falling stock?

I allow that, upon opening subscriptions, great profit was sometimes made by those who contracted with government, and who received the subscriptions at prime cost. But this profit depended entirely upon the subsequent rise of the subscription, when the original subscribers brought it first to market; as also from the small sums they had advanced: this operation was over before the end of January 1762. The smallness of the sum advanced, upon which the profit was made, and the ministerial interest which was necessary to obtain a share in those subscriptions, rendered it extremely difficult for people in Scotland to share in the profit by remitting large sums in the proper point of time.

Farther, might not the banks, in the short period during which such large profits were made, had they had the exchange in their hands, have raised it so high as to frustrate the attempts of our Scots gamblers? If it be said, that exchangers would have disappointed them, by giving it, lower. I answer in the negative: because with this set of men exchange will rise, of itself, in proportion to the value of money in the place to which people incline to remit it. And could money at any time bring in, at London, 20 per cent interest, exchange upon that place would rise universally in proportion.

The only motive, not already mentioned, for sending money to London at this time, under so great disadvantages, was the prospect of a great rise upon the stocks, in the event of a peace. Upon which I observe, that the value of that probability was included in the then price of stock; and had the probability of a peace, in January 1762, been great, stocks would have risen in proportion: he, therefore, who vested his money in stock, by remitting from Scotland at that time, upon an expectation peculiar to himself, I consider as a gamer, and as an ignorant gamer too; because he was giving odds upon an equal bet. This every man does, who, without any prospect of a profit peculiar to himself, pays a high exchange to bring money to a market, where he buys at the same price with those who pay no exchange at all.

From these considerations, I am led to differ from the ingenious author of the letter to J. F. Esq; who says, 'That in the present case' (the circumstances operating in January 1762,) 'the demand' (for money to remit to London) 'is unlimited, and no provision the banks can make can be of use; on the contrary, could they find a treasure, suppose of a million, it would only serve to increase it; because this demand arises on a profit on carrying money to London as a commodity, and not as the balance of trade.'

Chap. XIV

Of optional Clauses contained in Bank Notes
As we are examining the principles upon which banks of circulation upon mortgage, which issue notes payable in coin, are established in Scotland, it is proper to take notice of every circumstance which may arise from the extensive combination of the interests of trade and circulation, especially when we find such circumstances influencing the political welfare of society.

An optional clause in a bank note is added to prevent a sudden run upon banks, at a time when more coin may be demanded of them than they are in a capacity to pay.

Banks not regulated by statute, are private conventions, in which the parties may include what conditions they think fit. Banks, therefore, may insert in their notes, the conditions they judge most for their own advantage. Thus, they may either promise peremptory payment in coin upon demand, or they may put in an alternative, that in case they do not choose to pay in coin, they may pay in bills, or in transfer of their stock, or in other circulating paper not their own; or they may stipulate payment at a certain time after the demand, with interest during the delay. All these alternatives are inserted, in order to avoid the inconvenience of running short of coin, and of being obliged to stop payment altogether.

We have said above, that the profits of banks consist in their enjoying the same interest for the notes they lend, as if the loan had been made in gold or silver. This is a very great object, no doubt; but the policy of nations has established it, and therefore we shall suppose it to be an incontroverted principle.

In which ever way, therefore, an optional clause is inserted, it should be such as to cut off all profit from the bank, upon all paper presented for payment, from the time of presentation; and every artifice used to suspend the liquidation of the paper, to the advantage of the bank, and prejudice of the bearer, should be considered as unfair dealing in the bank, and prohibited by law.

When the optional clause has no tendency to procure an advantage to the bank, in prejudice of the holder of the paper (except as far as the holder is thereby deprived of the use of the coin, which on certain occasions cannot be supplied by the paper), it becomes the duty of a statesman to examine how far it is expedient to suffer such stipulations to be inserted in a money, which is calculated to carry on the mercantile interest of the nation.

Banks, we have said, are the servants of the public, and they are well paid for their services. Although the notes issued by them are not commonly made a legal tender in payment; yet the consequence of a well established bank, is to render them so essential to circulation, that what is not a legal obligation becomes one, in fact, from the force of custom.

Let us therefore examine the advantages which result to banks from this optional clause, and the loss which results to a nation from their using it, and then compare the advantages with the inconveniences, in order to determine whether it be expedient to permit such obstructions in the circulation of paper.

The advantage which banks reap is confined to that of gaining time, at the expense of paying interest. The interest paid by them is an awkward operation. They receive interest for the note; because they have in their possession the original security given for the notes when they were first issued; and they begin to refund this interest to the holder of the note from the time they avail themselves of the optional clause. Could banks, therefore,
borrow coin in a moment, at the same interest which they pay to
the holder of the note, they would certainly never make use of
this optional clause. But this coin can not be found in a moment;
and the banks, to save themselves the trouble, and the expence
of augmenting their fund of coin, or of procuring a fund in another
country, upon which they might draw for the payment of that
national balance, which, by becoming banks, they tacitly engage
to pay for the nation; render the credit of individuals
precarious with strangers, and raise a general distrust in the
whole society which they ought to serve. Here then is a very
great loss resulting to a nation from the establishment of banks.
Were no bank established, no merchant would contract a debt to
strangers, without foreseeing the ready means of discharging it
with the coin circulating in the country. In proportion as this
coin came to diminish, so would foreign contracts of debt
diminish also. Thus credit, at least, might be kept up, although
trade might be circumscribed, and manufactures be discouraged.
Now when, in order to advance trade and encourage manufactures, a
statesman lends his hand towards the melting down of solid
property, and countenances banks so far as to leave this
operation to them, with the emolument of receiving interest for
all their paper; and when, in order to facilitate the circulation
of this paper, the very inhabitants concur in throwing all their
specie into a bank, is it reasonable to indulge banks so far as
to allow them to add an optional clause, which disappoints the
whole scheme, which stops trade, ruins manufactures, raises the
interest of money, and renders the operation of melting down
property quite ineffectual for the purposes which it was intended
to answer. Farther:

The loss a bank may be at, in providing coin, is susceptible
of estimation, let it be brought from ever so distant a country;
because we know that the quantity to be provided never can exceed
the value of the grand balance. But who can estimate the loss a
nation sustains, when an interruption is put to the carrying on
of trade and manufactures? When the industrious classes of
inhabitants are forced to be idle for a short time, the
consequences are hardly to be repaired: they starve, they desert;
the spirit of industry is extinguished: in short, all goes to
ruin.

Besides, when banks do not lay down a well digested plan for
paying regularly, and without complaining, this grand balance due
to strangers, they are forced to have recourse to expedients for
preserving their credit, more burdensome, perhaps, than what is
required of them; and not near so effectual for removing the
inconveniences complained of.... This being the case, the
shortest and the best method for preventing such abuses, is to
oblige banks to pay upon demand, in coin or bills, at the option
of the holders of the note. This will force them into the method
for providing them; to wit, fairly to borrow money from nations
to whom we owe, and to pay a regular interest for it, without an
obligation to refund the capital, until the grand balance shall
take a favourable turn; in which case, the banks will regorge
with coin drawn from strangers; and these strangers will then
find as great an interest in being repaid, as the bank found in
borrowing from them, while the balance was in their favour.

Chap. XXII

Of the Bank of England and of the Banks of Circulation
established on Mercantile Credit
I have examined, with all the care I am capable of, the nature of banks calculating for the melting down of solid property, and the converting of it into paper for the use of circulation.

The nature of such banks is but little known in countries where they have not been established; therefore a distinct account of them may suggest hints, which in time may prove useful.

People who do not employ their thoughts on the theory of trade and credit, are apt to overlook objects of real utility; and those who do, have seldom the opportunity of being informed of the customs of different nations. Were my experience greater, or had I more opportunities to dive into the recesses of this great object, the work I now present to the public would better deserve its attention.

I now proceed to a deduction of the principles upon which are founded those banks which are chiefly calculated for the use of commerce; and as the ground-work of my inquiry, I shall trace some of the principal operations of the bank of England.

The establishment of this great company was formed about the year 1694. Government at that time having great occasion for money, a set of men was found who lent to it about 1,200,000 l. sterling, at 8 per cent for the exclusive privilege of banking for 13 years: with this additional clause, that 4000 l. sterling, per annum, should be given them to defray the expense of the undertaking. This sum of 1,200,000 l. sterling, was the original bank stock. It has been since increased to 11,000,000 l. by farther loans to government, for the prolongation of their privileges; as has been taken notice of in the 16th chapter of the second part.

This stock, as in banks of circulation upon mortgage, is to be considered only as a subsidiary security to the public for the notes they issue: were it the principal and only security for their paper, this bank would then be founded on the principle of public, not of mercantile credit; under which last denomination we are going to point out in what the nature of it differs from those we have already explained.

It is a rule with the bank of England to issue no notes upon mortgage, permanent loan, or personal security. The principal branches of their business may be comprehended under four articles, viz. 1. The circulation of the trade of London: 2. The exchequer business of Great Britain: 3. The paying of the interest of all the funds transferable at the bank: 4. Their trade in gold and silver. I shall now shortly explain the nature of these four great operations; and first as to the circulation of the trade of London.

When we speak of the circulation of trade, we understand the circulation of money paid on the account of trade.

The great occupation of the London merchants engages them to simplify their business as much as possible. For this they commit to brokers every operation which requires no peculiar talents or ingenuity in the merchant himself; and, for a like reason, they commit to the bank and private bankers the care of their cash.

A Scots merchant begins by drawing money from the bank, or from an exchanger, for which he pays interest: a London merchant begins by putting money into the bank, for which he draws no interest at all.

A London merchant, therefore, can give no order upon the bank, unless at a time when he has money lodged in it.

If he has occasion for money at any time, he sends to the bank the bills he has before they become due, and the bank
discounts them at certain rates, according to their nature.

If it be a foreign bill, the bank, in discounting it, retains of the sum, at the rate of 4 per cent per annum, for the time the bill has to run; but if the bill be at a longer day than 60 days they will not discount it. So in this case the merchant must keep his bill until it is within 60 days of the term of payment.

The reason for this is evident: the security upon which such bills stand, is purely mercantile. The nearer, therefore, the payment is, the less risk the bank incurs from the failure of those who are bound in it.

The intention of this operation of discounting bills, is plainly to employ the cash of the bank in a way to draw an interest for it; but as merchants allow their money to lie dead for as short a time as they possibly can, the bank must have quick returns for what they advance upon discount, in order to be constantly ready to answer all demands. This is no loss to the bank, and a prodigious advantage to trade, as I shall briefly explain.

The bank is constantly receiving cash from every person who keeps their cash with it. This occasions a constant fluctuation of payments, which of course must leave at all times a considerable sum of other people's money in the bank; because it never is in advance to any one.

By long practice in the trade, this sum of money becomes determinate: let us call it the average-money in the hands of the bank. It is then with this average-money alone, that the bank can discount bills. Now if the trade of London do afford bills to be discounted at different dates within 60 days, sufficient to absorb the whole average-money of the bank, appropriated for discounting; this branch of business would not go forward with the celerity required for the trade of London, did the bank indulge merchants so far as to discount at a longer day.

From this we learn another reason why the bank of England discounts no bill which has more than 60 days to run. The first, mentioned already, is for the greater security of payment; and the second, which we now discover, is in order to be able to discount more bills than otherwise they could do, did they discount at a longer day.

As I am here upon the subject of discounting bills of exchange by the bank of England, an operation it has in common with all the private bankers in the capital, I must answer a question I have frequently heard proposed.

How does it happen, that in a city of so great trade as London, it is possible that people should be found even among merchants, who allow their money to remain in the hands of bankers without interest; when in Scotland, a place of so little trade, interest may always be got for money for the shortest time?

The answer to this question is to be gathered from the very principles of trade itself.

The money which merchants have either in the hands of the bank, or of bankers, though very considerable at all times, is in perpetual fluctuation: it cannot then be lent to any but to a banker, who would consent to pay interest for the sums in hand. But no such banker can be found, nor ever will be found, until all the bankers in London consent to such a regulation. The reason is plain. One principal use the bankers make of the average-money in their hands, is the discounting of bills. Who then could pay interest for money, and discount, in competition with others of the same trade, who have it for nothing?

But suppose the bank, and all the bankers in town, should
come to the resolution of giving interest for the money in their hands, what would be the consequence?

I answer, that upon such an alteration, discount would rise above the present rates, to the great prejudice of the trade of the nation; and bankers would lend money in their hands upon a more precarious security for the sake of a higher interest.

All the landed men who reside in London, and many other wealthy people, not concerned in trade, constantly keep their money either in the bank, or in some banker's hand without interest: this enables bankers in general to discount foreign bills at 4 per cent as has been said, even when the rate of interest is rather above this standard. This is, as it were, a contribution from the rich and idle, in favour of the trade of the nation.

Let, therefore, gentlemen who have much idle money, think of any other expedient than that of obtaining interest for it, from those who discount bills in London. Not one of them can afford to do it, and thrive by his business; and the hurt which would result to trade in general, will constantly be a sufficient bar against a general resolution for that purpose.

What has been said, will, I hope, prove satisfactory as to the resolution of the question above proposed, so far as regards London. It remains to be answered, how those who supply the place of bankers in Scotland, and even the banks themselves can afford to pay interest for any sum put into their hands for a short time.

I answer, that as to the Scotch exchangers, as we have called them, the profits on their trade admit of borrowing money at interest, which that of the bank of England and private bankers cannot do. If these last can gain 4 or 5 per cent by discounting of bills, it is all they can honestly expect: every other employment of the money in their hands is precarious, either as to the security or promptitude of calling it in, to answer the demands which are made upon them.

As to Scotland, we have seen how directly contrary to all principles it is, for its banks to borrow money within the sphere of their own circulation. How this diminishes the profits upon their own trade, and hurts the circulation of the country; but although it diminish their profit, it carries along with it no positive loss to them, as would be the case, were a London banker to pay interest for all the money in his hands, when he never can draw any back, except for that part which we have called the average.

Every London banker is obliged to have a certain sum of cash constantly in his chest, the interest of which would be all lost, did he pay for it: whereas the exchangers in Scotland never have a shilling by them; and when any demand is made upon them, they draw the money from the banks, in consequence of their credit by cash accompts.

Besides foreign bills, which the bank of England discounts at 4 per cent they also discount inland bills, and notes of hand between merchants in London, at 5 per cent.

The inland bills to be discounted at the bank must all be payable in London. The bank calls in no money from any distant quarter of the kingdom.

As the discounting of notes of hand between London merchants might operate the same effect, as if the bank should advance them money upon personal security, which would be the case, were the notes of hand drawn for obtaining credit, instead of paying money really due between the merchants, in the course of business; the clerks of the bank keep a watchful eye over this branch of
management, and, by examining the reciprocal draughts of merchants between themselves, they easily acquire a knowledge of the state of their affairs, and are thereby enabled to judge how far it is expedient to launch out in discounting either the notes or bills wherein they are concerned.

I shall not pretend to assign a reason why, in the price of discount, the bank makes a difference of 1 per cent between foreign and inland bills of exchange. It may either be an indulgence and encouragement to foreign trade; or it may be upon the consideration of the better security of foreign bills, which commonly pass through several indorsations before they are offered to be discounted at the bank.

I come next to the circulation between the bank and the exchequer.

The bank of England is to the exchequer, what a private person's banker is to him. It receives the cash of the exchequer, and answers its demands.

Cash comes to the exchequer from the amount of taxes. The two great branches of which are the excise and customs. To explain this operation with the more distinctness, I shall take the example of the excise.

The excise is computed to bring in annually from London, and the fifty two collections over all England, nett into the exchequer, above four and a half millions sterling.

The fifty two collectors send the amount of their collections to London eight times a year, almost entirely in bills. As the same may be said of the remittances of all the other taxes, we may from this circumstance observe by the way, that London alone must constantly owe to the country of England a sum equal to all the bills drawn upon it; that is to say, to all the taxes which the country pays: a circumstance not to be overlooked, from which many things may be learned, as will be taken notice of in the proper place.

The bills sent by the fifty two collectors, are drawn payable to the commissioners of excise; they indorse them to the receiver general; he carries them to the bank as they fall due, and gets a receipt for the amount; this receipt he carries to the exchequer, who charge it in their account with the bank, and deliver tallies to the receiver general for the amount of his payments; these tallies he delivers to the commissioners of excise, who enter them in their book of tallies. This operation is performed once every week, and serves as a discharge from the commissioners to the receiver general.

The bank, again, keeps an account with the exchequer, which is settled once every day, by two clerks, who go from the bank to the exchequer for this purpose. When coin is wanted by the exchequer, for payments where bank notes will not answer, the coin is furnished by the bank; when paper will serve the purpose, paper is issued.

Besides this operation in the receipt of taxes, the bank advances to government, that is to the exchequer, the amount of the land or other taxes imposed, which are to be levied within the year. This we see is a loan upon government security for a short term, quite consistent with the principles upon which the bank is established. The large sums the bank is constantly receiving of public money, and the great assistance it obtains from thence in carrying on the other branches of its trade, enable it at present to make advances of money to government at 3 per cent. It observes the same rule with respect to the great companies of the East Indies, and South Sea, for the same reason; but no advances are made to private people; and in the
discounting of bills and notes of hand, the regulations above mentioned are adhered to.

Thus the whole amount of taxes is poured into the bank, in the manner we have been describing.

The bank also keeps the transfer books of all the funds negotiated at the bank; and out of the public money in its hand, it pays the interest of these funds for which government allows to the bank a sum proportionate to the expense of this branch of management.

When the bank, as a company, lends to government upon a permanent fund, the capital whereof is not demandable, this operation is foreign to their business as a bank; and is conducted by the company as an article of management of their private property.

Let us now examine by what channels their notes enter into circulation, and the security upon which they stand.

When issued in the discount of bills, they stand upon the principles of mercantile credit, and depend upon the goodness of the bills discounted. When issued upon the faith of taxes to be paid within the year, they stand upon the security of this payment, which is of a very complex nature, as any one may perceive. As long as the inhabitants of England consume exciseable goods, the excise will be paid: as long as trade goes on, customs will be paid: and as long as government subsists, the collateral security of the state will serve to make up all deficiencies in the amount of taxes. No security, therefore, can be better than the notes of the bank of England, while government subsists. The losses that great companies meet with from bad debts, I am informed, are very inconsiderable.

The greatest risk the bank runs, is in discounting bad bills; but by the extent of their business in this branch, and by circulating the cash of all the merchants who keep accounts with them, they acquire so perfect a knowledge of the state of their affairs, that it rarely happens that any one can break for very considerable sums, without the bank's having a previous notice of it. A sudden loss may no doubt happen, without a possibility of being foreseen; but the matter of fact proving that their losses upon bad bills are inconsiderable, we may thence infer, that there is but little mystery to the bank, with regard to the credit of London merchants.

I come now to the last branch of their management, to wit, their trade in gold and silver.

For the circulation of bank notes, coin is necessary. We have seen, in treating of the Scotch banks, how coin is brought it: to wit, in consequence of all the payments made to the bank, in which there must be a proportion of coin equal to what is found in common circulation. What is not paid in coin, comes in, in their own notes, which are thereby taken out of the circle; and consequently make place for a subsequent supply, which issues in the manner we have described.

In times of peace, and a favourable balance of trade, the bank suffers little by the obligation it is under to pay in coin, except as far as the great confusion of the present currency affords an occasion to money-jobbers to melt down the new guineas. The extent of this traffic I am no judge of, and the bank no doubt has an interest in preventing it as far as the laws have provided a remedy against it.

But when large payments are to be made abroad, the distress of the bank is no doubt very great.

In Scotland, the banks, upon such occasions, are totally drained of coin. They have no market for the metals; because they
The exportation of the heavy guineas in time of war, and during a wrong balance upon the trade of England, leaves circulation provided with a light currency only, in which the bank is obliged to pay their notes; and the intrinsic value of the gold in which they pay, regulates the price of the metals they are obliged to buy at market. If they provide them themselves from abroad, they must pay the price of them in bills of exchange. But then the lightness of the currency at home sinks the value of the pound sterling, as it raises the value of the ounce of gold and silver. So the only considerable loss they incur, is in providing the metals, which must ever be considerable, as long as the old guineas remain in circulation.

The loss upon coining silver is still greater than upon gold; because besides the loss incurred by reason of the lightness of the gold, the metals in the silver and gold coin of Great Britain, are not proportional to the value they bear in the London market, where they have been bought; as has been sufficiently explained already in another place.

Chap. XXIII

Of the first Establishment of Mr Law's Bank in France, in the year 1716

In deducing the principles of credit, I have it chiefly in view, to set in a fair light, the security upon which paper money is established: and as I imagine, this important branch of my subject will still be rendered more intelligible, by an example of the abuse to which this great engine of commerce is exposed, I now propose to give my reader a short account of the famous bank of circulation first established in France by Mr Law; but afterwards prostituted (whether by design, or by fatality, I shall not here determine) to serve the worst of purposes; defrauding the creditors of the state, and a multitude of private persons.

So dreadful a calamity brought upon that nation, by the abuse of paper credit, may be a warning to all states to beware of the like. The best way to guard against it, is to be apprised of the delusion of it, and to see through the springs and motives by which the Mississippi bank was conducted.

After the death of the late King of France, Louis XIV, the debts contracted by that Monarch were found to extend to 2000 millions of livres, that is, to upwards of 140 millions sterling.

It was proposed to the Duke of Orleans, regent of the kingdom, to expunge the debts by a total bankruptcy. This proposal he rejected nobly; and, instead of it, established a commission (called the Visa) to inquire into the claims of such of the nation's creditors as were not then properly liquidated, nor secured by the appropriation of any fund for the payment of the interest.

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In the course of this commission, many exorbitant frauds were discovered; by which it appeared, that vast sums of debt had been contracted, for no adequate value paid to the King.

After many arbitrary proceedings, this commission threw the King's debts, at last, into a kind of order.

Those formerly provided for were all put at 4 per cent. The creditors to the amount of six hundred millions, which had not
been liquidated, nor provided for, had their claims reduced, by
the commission, to two hundred and fifty millions. for which they
obtained notes of state, (Billets d'état, as they were called,) bearing an interest of 4 per cent also.

These operations performed, the total debts of the late King
were reduced to the sum above mentioned; to wit, two thousand
millions; bearing an interest of 4 per cent or eighty million per
annum.

From the necessities of government, and the distressed
situation of the kingdom, this interest was ill paid; and there
hardly remained, out of an ill-paid revenue, wherewith to defray
the expence of the civil government.

About this time, Mr Law presented to the Regent the plan of a
bank of circulation.

Chap. XXV

Continuation of the Account of Law's Bank

The bank accordingly was established in favour of Law and
Company, by letters patent, of the 2nd of May 1716. The Company
was called, the General Bank; and the note run thus:

The bank promises to pay to the bearer at sight livres, in
coin of the same weight and fineness with the coin of this day, value received at Paris.

The first fund of this bank consisted in 1200 actions (or
shares) of one thousand crowns (or 5000 livres) bank money; in
all six millions; the crown being then 5 livres, 8 to the marc;
silver coin at 40 livres per marc, as has been said: which makes
this livre just worth one shilling sterling: consequently, the
shares were worth 250 l. sterling, and the bank stock worth
300,000 l. sterling.

By the clause in the note, by which the bank was obliged to
pay according to the then weight and fineness of the coin, those
who received their paper were secured against the arbitrary
measures common in France of raising the denomination of the
coin; and the bank was secured against the lowering of it. In a
short time, most people preferred the notes to the coin; and
accordingly they passed for 1 per cent more than the coin itself.

This bank subsisted, and obtained great credit, until the 1st
of January 1719: at which time the King reimbursed all the
proprietors of the shares, and took the bank into his own hand,
under the name of the Royal Bank.

Upon this revolution, the tenor of the note was changed. It
ran thus: The bank promises to pay to the bearer at sight,
livres, in silver coin, value received at Paris.

By this alteration, the money in the notes was made to keep
pace with the money in the coin; and both were equally affected
by every arbitrary variation upon it. This was called rendering
the paper monnoie fixe; because the denominations contained in it
did not vary according to the variations of the coin: I should
have called it monnoie variable; because it was exposed to
changes with respect to its real value.

Mr Law strenuously opposed this change in the bank notes. No
wonder! it was diametrically opposite to all principles of
credit. It took place, however; and nobody seemed dissatisfied:
the nation was rather pleased: so familiar were the variations of
the coin in those days that nobody ever considered anything with
regard to coin or money, but its denomination: the consequences
of the variations in the value of denominations, upon the
accompts between debtors and creditors, were not then attended
to; and the credit of the notes of the royal bank continued just as good as the credit of those of Mr Law's had been; although the livres in this contained a determinate value; and the livres in that could have been reduced at any time to the value of halfpence, by an act of the King's authority, who was the debtor in them. Nay more, they in fact stood many variations during the course of the system, without suffering the smallest discredit. This appears wonderful; and yet it is a fact.(5*)

Political writers upon the affairs of France at this period, such as De Melon, Savarie, Dutot and others, abundantly certify the incredible advantage produced by the operations of Mr Law's Bank; and the chain of events which followed, in the years 1719, and 1720, when it was in the King's hands, shew to what a prodigious height credit arose upon the firm foundation laid by Mr Law.(6*)

But alas! the superstructure, then, became so far beyond the proportion of the foundation, that the whole fabric fell to ruin, and involved a nation, just emerging from bankruptcy and ruin, into new calamities, almost equal to the former.

As long as the credit of this bank subsisted, it appeared to the French to be perfectly solid. The bubble no sooner bursted, than the whole nation was thrown into astonishment and consternation. Nobody could conceive from whence the credit had sprung; what had created such mountains of wealth in so short a time; and by what witchcraft and fascination it had been made to disappear in an instant, in the short period of one day.

Volumes have been since written in France, by men of speculation, in order to prove, that it was a want of confidence in the public, and not the want of a proper security for the paper, which occasioned this downfall.

This, if we judge by what has been written, has been the general opinion of that nation to this day: and since it was found impossible, in France, to create confidence in circulating paper, which had no security for its value, many people there, and some even among ourselves, conclude, that a great part of the wealth of Great Britain, which consists in paper, well secured, is false and fictitious.

I shall now proceed to set before my reader the great lines of the royal Mississippi bank of France, from the 1st of January 1719, to the total overthrow of all credit, upon the fatal 21st day of May 1720. This was a golden dream, in which the French nation, and a great part of Europe was plunged, for the short space of 506 days.

Chap. XXVI

Account of the Royal Mississippi Bank of France, established on Public Credit

In order to unravel the chaos of this affair in a proper manner, it will not be amiss to begin by giving the reader an idea of the plan which naturally might suggest itself to the regent of France, from the hint of Mr Law's bank. By the help of this clue, he will be the better able to conduct himself through the operations of this system, as the French call it.

The Regent perceived, that in consequence of the credit of Law's bank, people grew fond of paper-money. The consequence of this, he saw, was to bring a great quantity of coin into the bank. The debts of France were very great, being, as has been said, above 2000 millions. The coin, at this time, in France, was reckoned at about 1200 millions, at 60 livres the marc, or 40
millions sterling. The Regent thought, that if he could draw either the whole, or even the greatest part of this 1200 millions of coin into his bank, and replace the use of it to the kingdom, by as much paper, secured upon his word, that he should then be able to pay off, with it, near one half of all the debts of France: and by thus throwing back the coin into circulation, in paying off the debts, that it would return of itself into the bank, in the course of payments made to the state: that credit would be thereby supported, as the bank would be enabled to pay in coin the notes as they happened to return, in the course of domestic circulation.

This was both a plausible and an honest scheme, relatively to a Duke of Orleans, whom we cannot suppose to have been master of the principles of credit; and very practicable in a country where there was so great a quantity of coin as 40 millions sterling, and a well-established credit in the bank, which prevented all runs upon it from diffidence. Nothing but a wrong balance of trade could have occasioned any run for coin; because, for the reason already given, the paper bore for the most part a premium of 1 per cent above it.

Accordingly, during the whole year 1719, the credit of the royal bank was without suspicion, although the regent had, by the last day of December of that year, coined of bank paper, for no less a sum than 769 millions, reckoning in 59 millions of paper, which had been formerly issued by the general bank of Law and company; for which he had given value to the proprietors, when he took the bank into his own hands, as we have said above.

I must here observe, that by this plan of the Regent, there was, in one sense, a kind of security for the notes issued. So far as they were issued for coin brought in from the advanced value of the paper, this coin was the security: in the second place, when the coin was paid away to the creditors of the state, the Regent withdrew the obligations which had been granted to them; and although I allow that the King's own obligation withdrawn, was no security to the public, who had received bank notes for the payment of it; yet still the interest formerly paid to the creditors, was a fund out of which, upon the principles of public credit, the annual interest for the notes was secured. Had, indeed, the French nation perceived upon what bottom the security for the paper stood, during the year 1719, perhaps the credit of the bank might have been rendered precarious; but they neither saw it or sought after it: and the men of speculation were all of opinion, that as long as there was no more paper issued by the bank than there was coin in the kingdom, there could be no harm done. Of this, any person who has read Dutot, De Melon, Savarie, and others, will be perfectly satisfied. And I desire no farther proof of the total ignorance of the French in matters of this kind, than to find them agreeing, that bank paper must always be good, provided there be coin in the nation to realize it, although that coin be not the property of the bank. (Dutot, p. 132, 133.) On the contrary, it is very evident from what has been said, that although there should be a thousand times more coin in a country than the bank paper, still that bank paper must be a mere delusion, and, in fact, of no value whatsoever, except so far as the bank is possessed of the value of it in one species of property or another.

And on the other hand, let the bank paper exceed the quantity of coin in the proportion of a thousand to one, yet still it is perfectly good and sufficient, provided the bank be possessed of an equivalent value in any species of good property. This I throw in here to point out how far the French were, at least at that
time, and many years after, when Dutot and Melon wrote, from forming any just notion of the principles of banking. And, I believe, I may venture to say, that the only reason why banks have never been established in France, is, because the whole operation is still a mystery to them. I ground this conjecture upon an opinion of M. de Montesquieu, who thinks that banks are incompatible, with pure monarchy; a proposition he would never have advanced, had he understood the principles upon which they are established.

The next remarkable and interesting revolution made upon this famous bank, was by the arret of February 22, 1720; which constituted the union of the royal bank with the company of the Indies.

By this arret, the King delivered to that company the whole management of the bank with all the profits made by him since the first of January 1719, and to be made in time to come. Notwithstanding this cession, the King remained guarantee for all the notes, which were not to be coined without an order of council: the company was to be responsible to the King at all times for their administration; and, as a security for their good management, they engaged to lend the King no less than sixteen hundred millions of livres.

Here is the aera and beginning of all the confusion. From this loan proceeded the downfall of the whole system.

Chap. XXIX

Continuation of the Account of the Royal Bank of France, until the time that the Company of the Indies promised a Dividend of 200 Livres per Action

These things premised, what follows will, I hope, be easily understood.

As soon as the Regent of France perceived the wonderful effects produced by Law's bank, he immediately resolved to make use of that engine, for clearing the King's revenue of a part of the unsupportable load of 80 millions of yearly interest, due, though indeed very irregularly paid, to the creditors.

It was to compass this end, that he bestowed on Law the company of the West Indies, and the farm of the tobacco. To absorb 100 millions of the most discredited articles of the King's debts, 200,000 actions or shares of this company were created. These were rated at 500 livres each, and the subscription for the actions was ordered to be paid in billets d'état, so much discredited by reason of the bad payment of the interest, that 500 livres, nominal value in these billets, would not have sold upon change for above 160 or 170 livres. In the subscription they were taken for the full value. As these actions became part of the company's stock, and as the interest of the billets was to be paid to the company by the King, this was effectually a loan from the company to the King of 100 millions at 4 per cent.

The next step was to pay the interest regularly to the company. Upon this the actions which had been bought for 170 livres, real value, mounted to par, that is, to 500 livres. This was ascribed to the wonderful operations of the bank; whereas it was wholly owing to the regular payment of the interest.

In May following 1719, the East India company was incorporated with the West India company: and it was stipulated
that the 200,000 actions formerly created, were to be entitled to a common share of the profits of the joint trade.

But as the sale of the first 200,000 actions had produced no liquid value which could be turned into trade (having been paid for in state billets), a creation of 50,000 new actions was made in June 1719, and the subscription opened at 550 livres payable in effective coin.

The confidence of the public in Mr Law, was at this time so great, that they might have sold for much more: but it was judged expedient to limit the subscriptions to this sum; leaving the price of the actions to rise in the market, according to demand, in favour of the original subscribers.

This money amounting to 27,500,000 livres in coin, was to be employed in building of ships, and other preparations for carrying on the trade.

The hopes of the public were so much raised by the favourable appearance of a most lucrative trade, that more actions were greedily demanded.

Accordingly in a month after (July 1719) another creation was made of 50,000 actions; and the price of them fixed at 1000 livres.

It must be observed, that all actions delivered by the company of the Indies, originally contained an obligation on the company for no more than 4 per cent upon the value of 500 livres, with a proportion of the profits on the trade; so that the rise of the actions proceeded entirely from the hopes of those great profits, and from the sinking of the rate of interest; a consequence of the plenty of money to be lent.

But besides the trade, what raised their value at this time, was, that just before the last creation of actions, June 10, 1719, the King had made over the mint to the company for a consideration of 50 millions of livres; and this opened a new branch of profit to every one interested.

The sale of the last coined actions taking place at 1000 livres each, so great a rise seems to have engaged the Regent to extend his views much farther than ever. To say that he foresaw what was to happen, would be doing him the greatest injustice. He foresaw it not, most certainly; for no man could foresee such complicated events. But had he conducted himself upon solid principles; or by the rules which, we now say, common honesty required, he certainly never would have countenanced the subsequent operation.

The fourth creation of actions was in the beginning of September 1719.

In the interval between the third and the fourth creation, the Regent made over the general farms to the company, who paid three millions and a half advanced rent for them. And the company obliged themselves to lend the King (including the 100 millions already lent upon the first creation of actions) the immense sum of 1600 millions at 3 per cent that is, for 48 millions interest.

Now it is very plain, that before the month of September 1719, it was impossible they could lend the King so great a sum.

They had already lent him, in September 1718, 100 millions, by taking the billets d'état for the subscription of the first creation of actions; the second creation had produced coin, laid out in mercantile preparations; and the third creation of actions, at the standard value, was worth no more than 50 millions of livres; this was their whole stock. Where then could they find 1500 millions more to lend?

I therefore conclude, that at this time, the scheme which I am now to unfold, must have more or less, taken place between the
Regent and this great company.

The public was abundantly persuaded of the prodigious profits of the company, before they got possession of the general farms. No sooner had they got this new source of riches into their hands, than they promised a dividend of no less than 200 livres on every action, which was ten times more than was divided on them when at first created.

The consequence of this was, that (supposing the dividend to have been permanent and secure) an action then became as well worth 5000 livres as at first it was worth 500 livres; accordingly to 5000 did it rise, upon the promise of this new dividend.

But what could be the motive of the company to promise this dividend, three months only after their establishment? Surely, not the profits upon a trade which was not as yet opened. Surely, not the profits upon the King's farms; for these profits it was greatly their interest to conceal.

Their views lay deeper. The Regent perceived that the spirit of the nation was too much inflamed, to suffer people to enter into an examination of the wonderful phaenomena arising from the establishment of the bank, and company of the Indies. If the company promised 200 livres dividend, the public concluded that their profits would enable them to pay it; and really in this particular the public might be excused.

The plan, therefore, concerted between the Regent and the company seems to have been, to raise the actions to this great value, in order to keep up a greater quantity of notes in circulation.

This was to be accomplished, first by the Regent's purchasing the actions himself from the company; secondly, by borrowing back the notes he had paid for them, in order to fill up the loan which the company had agreed to make; thirdly, to pay off all the public creditors with those notes so borrowed back; and fourthly, when the nation was once filled with bank paper, to sell at an adequate price, the actions he had purchased from the company, to withdraw his own paper, and then to destroy it.

By this operation the whole debts of France were to be turned into actions; and the company was to become the public debtor, instead of the King, who would have no more to pay but 48 millions of interest to the company.

By this operation also, the Regent was to withdraw all the bank notes which he had issued for no other value but for the payment of debts; which notes were demandable at the bank: and for the future, he was to issue no more (I suppose) but for value preserved.

Chap. XXX

Inquiry into the Motives of the Duke of Orleans in concerting the Plan of the Mississippi

Now if we examine the motives of the Regent, with regard to this plan, and suppose that he forsaw all that was to happen in consequence of it; and if we also suppose that he really believed that the company never could be in a situation to make good the dividend of 200 livres, which they had promised upon their actions; in a word, if we put the worst interpretation upon all his actions, we must conclude that the whole was a most consummate piece of knavery.

But as this does not appear evidently, either by the succeeding operations, or ultimate consequences of this scheme, I
am loth to ascribe, to that great man, a sentiment so opposite to that which animated him, on his entrance upon the regency, when he nobly rejected the plan proposed to him for expunging the debts altogether.

I may therefore suppose, that he might believe that the company to whom he had given the mint, the tobacco, the farms, and the trade of France, and to whom he soon after gave the general receipt of all the revenue, might by these means be enabled to make good their engagements to the public. I say, this may be supposed; in which case justice was to be done to everyone; and the King's debts were to be reduced to 48 millions a year, instead of 80 millions.

That this is a supposeable case, I gather from Dutot, who gives us an enumeration of the revenue of the company, Vol. I, p. 162, as follows:

Revenue of the Company of the Indies.

<table>
<thead>
<tr>
<th>Description</th>
<th>Revenue (in thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest paid to the company per annum</td>
<td>48,000</td>
</tr>
<tr>
<td>Profits upon the general farms</td>
<td>15,000</td>
</tr>
<tr>
<td>Ditto upon the general receipt of other taxes</td>
<td>1,500</td>
</tr>
<tr>
<td>Ditto upon the tobacco</td>
<td>2,000</td>
</tr>
<tr>
<td>Ditto upon the mint</td>
<td>4,000</td>
</tr>
<tr>
<td>Ditto upon their trade</td>
<td>10,000</td>
</tr>
<tr>
<td>In all of yearly income</td>
<td>80,500</td>
</tr>
</tbody>
</table>

Now if we suppose the interest of money at 3 per cent this sum would answer to the capital of 2664 millions, which was more than all the debts of the kingdom, for which they were to become answerable.

Upon this view of the matter, I say, it was possible, that the Regent might form this plan, without any intention to defraud the creditors; and more I do not pretend to affirm.

I have said that he purposely made the company raise the price of their actions, in order to draw more notes into circulation.

To this it may be objected, that he might as well have paid off the creditors with bank notes, without going this round-about way to work; and have left them to purchase the actions directly from the company.

I answer, that such an operation would have appeared too barefaced and might have endangered the credit of the bank. Whereas in buying the actions, which were sought after by everybody, the state appeared desirous only of acquiring a share of the vast profits to be made by the company. Farther:

As the company appeared willing to accept of bank notes from the state, in payment of their actions, this manoeuvre gave an additional credit both to the actions, and to the notes; a thing very necessary to be attended to, in a scheme which was calculated to bring about a total transformation of the security for the King's debts.

I must however observe, that at the period concerning which we are now speaking (viz. at the time the company promised the dividend of 200 livres per action) the plan we have been describing could not have been carried into execution.

There were at that time no more than 400,000 actions created, rated at 777 millions: of these were already disposed of at least 250,000, to wit, the original 200,000; and the second creation of 50,000, sold for coin. Besides, there were then only coined in
bank notes for 520 millions. So there was not a possibility of executing the plan I have mentioned, as matters then stood.

It is from the subsequent operations of the system, that it appears evident that this and this only could be the intention.

We shall see how the number of actions were multiplied, without any other view than to make the public imagine, that the funds necessary for carrying on the trade of the company were immense.

The number of the actions sold to the public was very inconsiderable, compared with those sold to the Regent, and found in his hands at the blowing up of the system.

Besides, at the period when the number of actions was carried to the utmost, viz. to 624,000, the bank notes bore no proportion to their value; for, on the 4th of October 1719, when the last creation of actions was made, the bank notes did not exceed the sum above specified, to wit, 520 millions.

But in tracing the progress of the system upon the preceding table, we perceive, that after the actions were once carried to their full number (October 4th 1719), the coining of bank notes went on at a most prodigious rate: so much that by the month of May 1720, they were increased from 520 millions, to above 2696 millions; and on the 21st of that month, all this sum, except 461 millions, were found in circulation.

Farther: We shall see, that when the Regent and the company made out their accounts, there were found in the Regent's hands no less than 400,000 actions, which were burnt; and in consequence of this 25 millions of interest upon the sum of money due by the King to the company, were extinguished.

These facts prove beyond a doubt, that these 400,000 actions had been bought with the notes coined posterior to the 4th of October 1719; otherwise the actions could not have become the property of the state.

Besides, it was acknowledged publicly, that the notes were coined for this purpose. (See Dutot, Vol. I, p. 144.) In the next place, it is evident, that the notes which had been given by the state in payment for these actions, must have been paid back to the state, by the company, in order to fill up the loan of 1600 millions of livres; which the company never could have otherwise lent to the King. And in the last place, it is certain that the public debts were paid off with these notes, so borrowed back from the company: because we shall find the notes in circulation at the blowing up of the system, on the 21st of May 1720; and we shall see how they were paid and withdrawn in October following.

This detail is, I confess, a little long, and perhaps too minute: but I thought it necessary to prove the solidity of my conjectures concerning the Regent's motives in concerting this plan; which no French author, that ever I saw, has pretended to unfold, except by hints too dark to be easily comprehended.

What is now to follow, will still set my conjectures in a fairer light. We have seen already from the table, with what rapidity the creation of actions went on from the 13th of September to the 4th of October 1719. No less than 324,000 were created in this interval.

Yet Dutot, vol. ii, p. 169, et seq. positively says, that on the 4th of October, the company had not sold for more than 182,500,000 livres of their actions. Now the total value, as they were rated when created, extended to 1,797,500,000; so there was little more than one tenth part of the value sold off.

Why therefore create such immense quantities of actions, and so far beyond the demand for them, but to throw dust in the eyes of the public; to keep up the spirit of infatuation; and to pave
the way for the final execution of the plan?

The actions being brought, by four successive creations, of the 13th and 28th of September, the 2nd and 4th of October, to their full number, the company, during this interval, obtained the general receipt of the whole revenue. Thus, says Dutot, vol. ii, p. 197, the company was intrusted with the whole revenue, debts and expenses of the state, and all unnecessary charge was avoided in collecting and administering it.

In the month of November 1719, the credit of the bank, and of the company, was so great, that the actions rose to 10,000 livres. Notwithstanding, says Dutot, vol. ii, p. 198, that the company did what they could to keep down the price, by throwing into the market, in one week, for no less than 30 millions. He assigns seven different reasons for this, which, all put together, are not worth one; to wit, that the Regent was ready to buy up every one that lay upon hand, in concert with the company.

If the company had been inclined to keep down the price of the actions, they had nothing more to do than to deliver part of the vast number they still had unsold, at the standard value of 5000 livres, at which they were rated when created; and this would have effectually prevented their rising to 10,000 livres.

But it was the interest of the Regent, who was at that time well provided with actions, to stock-job, and to buy with one hand, while he was selling with the other: these operations were then as well known in the street called Quinquempoix, as now in Change-alley.

As a proof of the justness of my allegation, that the Regent was doing all he could to raise the price of the actions, Dutot informs us, in the place above cited, that the bank, at this very time, was lending money, upon the security of actions, at 2 per cent. Since this was the case, how was it possible that an action, with 200 livres dividend, should sell for less than 10,000 livres, which is the capital corresponding to 200 livres, at 2 per cent?

This is evident; and were it necessary, it may be proved to demonstration, that the rise of the actions was merely the consequence of a political contrivance.

But if money, at that time, came to bear no more than 2 per cent and if the company were able to afford 200 livres upon the action; where was the iniquity of raising the actions to 10,000 livres? I confess I can see none, nor do I perceive either the impossibility or improbability of the two postulata, had matters been rightly conducted.

As to money's falling to 2 per cent any man of 20 years old may expect to see it, without a Mississippi: and as for the payment of the dividends, there never were in the hands of the public, nor ever could be, had all the creditors of the 2000 millions of public debts invested in actions at 10,000 a-piece, one half of 624,000 actions disposed of: consequently, the 200 livres dividend would not have amounted, upon 312,000 actions, to more than 62,400,000 livres; and the revenue of the company, as we have seen, exceeded 80 millions a year.

This still tends to justify the Regent from the gross imputation of fraud, in the conduct of the Mississippi.

But what should still more exculpate this Prince, in the eyes of every impartial man who examines the whole conduct of the affair, is the uniform sentiments of the most intelligent men in France concerning the doctrine of money and credit.

When we find Dutot, who wrote against the arbitrary change of the coin; and De Melon, the Regent's man of confidence and secretary, who wrote in favour of it, two persons considered in
France as most able financiers, both agreeing, that during the operations of the system, money never was to be considered but according to denominations; that there was nothing against good policy in changing the value of these denominations; and that paper-money, whether issued for value, or for no value, or for the payment of debts, was always good, provided there was coin enough in France for the changing of it; and this, although the coin itself did not belong to the debtors in the paper: when these principles, I say, were adopted by the men of penetration in France; when we find them published in their writings, many years after the Regent's death, as maxims of what they call their credit public; I think it would be the highest injustice to load the Duke of Orleans with the gross imputation of knavery, in the Mississippi scheme.

Law no doubt saw its tendency. But Law saw also, that credit supported itself on those occasions, where it stood on the most ticklish bottom; he saw bank notes to the amount of more than two thousand millions, issued in payment of the King's debts, without occasioning any run upon the bank, or without suggesting an idea to the public that the bank should naturally have had some fund, to make them good: he saw people, who were in possession of a value in paper exceeding 6000 millions of livres, 60 to the marc, (Dutot, vol. i, p. 144.) look calm and unconcerned, when, in one day, the coin was raised in its denomination to 80 livres in the marc; by which operation, the 6000 millions of the date before lost 25 per cent of their real value. He saw that this operation did not in the least affect the credit of the bank paper; because people minded nothing but denominations.

He saw farther, that by the operation proposed, the whole debt of the King would be transferred upon the company. He saw that these debts, being turned into bank notes, would not be sufficient to buy above 200,000 actions, at the value they then sold for. He knew that the Regent, who had bought 400,000 of these actions at 5000 livres apiece, that is, at half price, would remain in possession of 200,000 actions, after selling enough to draw back the whole of the bank notes issued for the payment of the debts; and he saw that the company of the Indies had a yearly income of above 80 millions to enable them to make good their engagements: besides, he saw a power in the King to raise the denominations of the coin at will, without shocking the ideas of his people; by which means he might have paid the 2000 millions with one louis d'or. Put all these circumstances together, and I can imagine that Law's brain was turned; that he had lost sight of all his principles; and that he might believe that his former common sense was, at that time, become absolute nonsense in France.

That common sense may become nonsense, is a thing by no means peculiar to France, but quite peculiar to man.

I shall offer but one argument more, to prove that the Duke of Orleans, and Law, could have no premeditated design of defrauding the public, by these wonderful operations; which is, that to suppose the contrary, would be to allow them an finite superiority of understanding over all the rest of Europe.

Until the bubble bursted nobody could know where it was to end: everything appeared very extraordinary indeed; and the fatal catastrophe might have been expected from the greatness of the undertaking, merely. But had there been any roguery in the plan itself, it must have appeared palpable long before; because the whole of the operations in which only it could consist, were public.

All the notes were created by public act of council; so were
the actions: the loan of 1600 millions to the King, by the company, was a public deed; so was the alienation in their favour, of 48 millions for the interest of this sum. Notes were avowedly coined in order to purchase actions, (Dutot, Vol I, p. 144.) the creditors were avowedly paid with bank notes, at a time when it was forbidden to have 500 livres in coin in any person's custody; consequently, it was also forbidden to demand coin for bank notes.

Now all this was going on in the months of February, March, April and the beginning of May 1720; without any suspicion of any failure of credit. The coin also was sometimes raised, sometimes diminished in its value, and still the fabric stood firm.

Under these circumstances, to say there was knavery, is to say that all the world were absolutely blockheads, except the Regent and John Law: and to this opinion I never can subscribe.

It may seem surprising that I should take so much pains to justify the two principal conductors of this scheme. My intention is not so much to do justice to their reputation, which has been grossly calumniated by many, who have written the history of those times, as to prove, that an ill-concerted system of credit may bring ruin on a nation, although fraud be out of the question: and if a nation be plunged into all the calamities which a public bankruptcy can occasion, it is but a small consolation to be assured of the good intentions of those who were the cause of it.

Chap. XXXI

Continuation of the Account of the Royal Bank of France, until the total Bankruptcy on the 21st of May 1720

I now resume the thread of my story. We left off at that period when the credit of the company and of the bank was in all its glory (November 1719); the actions selling at 10,000 livres, dividend 200 livres a year per action, and the bank lending at 2 per cent: all this was quite consistent with the then rate of money.

In this state did matters continue until the 22nd of February 1720, when the bank was incorporated with the company of the Indies.

The King still continued guarantee of all the bank notes; none were to be coined but by his authority: and the comptroller-general for the time being, was to have, at all times, together with the Prevot des marchands of Paris, ready access to inspect the books of the bank.

As the intention, at the time of the incorporation, was to coin a very great quantity of notes, in order to buy up the actions, and to borrow back the money, in order to pay off the creditors, it was proper to gather together as much coin as possible, to guard against a run upon the bank: for which purpose, the famous Arret de Conseil, of the 27th of February 1720, was published, forbidding any person to keep by them more than 500 livres in coin.

This was plainly annulling the obligation in the bank paper, to pay to the bearer on demand the sum specified, in silver coin.

Was it not very natural, that such an arret should have, at once, put an end to the credit of the bank? No such thing however happened. The credit remained solid after this as before; and nobody minded gold or silver any more than if the denomination in their paper had had no relation to these metals. Accordingly, many, who had coin and confidence, brought it in, and were glad
to get paper for it.

The coin being collected in about a week's time, another Arret de Conseil, of the 5th of March, was issued, rising the denomination from 60 livres to 80 livres the marc. Thus, I suppose, the coin which the week before had been taken in at 60 livres, was paid away at 80: and the bank gained 33 1/3 per Cent. upon this operation. Did this hurt the credit of the bank paper? Not in the least.

As soon as the coin was paid away, which was not a long operation, for it was over in less than a week; another Arret de Conseil, of the 11th of the same month of March, came out, declaring that, by the first of April, the coin was to be again reduced to 70 livres the marc, and on the first of May to 65 livres. Upon this, the coin, which had been paid away the week before, came pouring into the bank, for fear of the diminution which was to take place the first of April. In this period of about three weeks, the bank received in coin about 44 millions of livres; and those who brought it in thought they were well rid of it.

It was during the months of February, March, and April 1720, that the great operations of the system were carried on.

We may see by the chronological anecdotes in the 28th chapter, what prodigious sums of bank notes were coined, and issued during that time. It was during this period also, that a final conclusion was put to the reimbursing all the public creditors with bank notes: in consequence of which payment, the former securities granted to them by the King, under the authority of the parliament of Paris, were withdrawn and annulled.

Here then we have conducted this scheme to the last period.

There remained only one step to be made to conclude the operation; to wit, the sale of the actions, which the Regent had in his custody to the number of 400,000.

These were to be sold to the public, who were at this time in possession of bank notes to the value of 2,235,083,590 livres. See the foregoing table.

Had the sale of the actions taken place, the notes would all have returned to the bank, and there have been destroyed: by which operation, the company would have become debtor to the public for the dividends of all the actions in their hands, and to the King for all those which might have remained in the hands of the Regent. These proportions we cannot bring to any calculation, as it would have depended entirely on the price of the actions during so great an operation; and on the private conventions between the parties, the Regent and the company.

But alas! all this is a vain speculation. The system, which hitherto had stood its ground in spite of the most violent shocks, was now to tumble into ruin from a childish whim.

In order to set this stroke of political arithmetic in the most ludicrous light possible, I must do it in Dutot's own words, uttered with a sore heart and in sober sadness.

He had said before, that the coin of France was equal to 1200 millions of livres at 60 livres the marc. This marc was now at 65 livres (in May 1720, as above) so the numerary value, as he calls it, (that is the denomination,) of the coin was now risen to 1,300,000,000; but the bank notes circulating in the month of May were carried to 2,696,400,000; then he adds,

'The 1300 millions of coin which were in France, were very far from 2696 millions of notes. In that case the sum of notes was to the sum of coin, nearly as 2 2/27 are to 1; that is to say, that 207 livres 8 sols 1 7/8 denier in notes, was only worth
100 livres in coin; or otherwise, that a bank note of 100 livres was only worth 48 livres 4 sols 5 deniers in coin, or thereabouts. Would not any mortal conclude from this calculation of Dutot's, that the whole sum of 1300 millions had been in the bank, as the only fund for the payment of the paper?

This is a laboured equation, and from it we have a specimen of this gentleman's method of calculating the value of bank paper: but let us hear him out.

'This prodigious quantity of money in circulation', says he, 'had raised the price of every thing excessively; so in order to bring down prices, it was judged more expedient to diminish the denomination of the bank notes, than to raise the denomination of the coin; because that diminished the quantity of money, this augmented it.'

This was the grand point under deliberation, before the famous arret of the 21st of May was given, viz. whether it were better to raise the value of the coin, which did not belong to the bank, but to the French nation, to double the denomination it bore at this time, that is, to 130 livres the marc, by which means the 1300 millions would have made 2600 millions, or to reduce the 2600 millions of bank notes to one half, that is, to 1300 millions, the total denomination of the coin.

To some people it would have appeared more rational to reject both the alternatives, and to allow matters to stand as they were, as long as they would stand, at least until the actions had been all sold off; but this was not thought proper. After a most learned deliberation, it was resolved to reduce to one half, the denomination of all the paper of France, bank notes as well as actions, instead of raising the denomination of the coin; and this because the prices of commodities were supposed to be in proportion to the quantity of the denominations of money.

The arret was no sooner published than the whole paper fabric fell to nothing. The day following, the 22nd of May, a man might have starved with a hundred millions of paper in his pocket.

This was a catastrophe the like of which, I believe, never happened: it is so ridiculous that it is a subject fit only for a farce.

Here Dutot's lamentations and regrets are inimitable.

In one place he says, 'Credit was too far fetched to be solid. It was therefore proper to sacrifice one part, to give a solidity to the other. Even this was done; but the consequences did not correspond to the intention. Confidence, which is the soul of credit, eclipsed itself, and the loss of the bank note, drew on the loss of the action.'

In another place he says, 'This arret of the 21st of May, which according to some blessoit l'équité,' (a very mild expression!) 'destroyed all confidence in the public; because the King had diminished one half of that paper money (the bank notes) which had been declared fixed.'

Is it not a thousand pities that confidence should have disappeared upon so slight a wound given to equity, only in the opinion of some? For Dutot thought the operation perfectly consistent with the principles of public credit.

He tells us, that a letter was written to calm the minds of the people, and to shew them how absurd it was, to allow the paper to be fixed, while the coin varied; but, says he, 'as there was a revenue attached to the action, the value of that paper did not depend so much upon the capital, as on the sum of the interest.' Very just. But were the dividends to stand at 200 livres, without suffering the same diminution as the action? And how was confidence to subsist in a county, where the
denominations of both the paper and the coin were at the disposal of a minister?

The diminution upon the paper, by the arret of the 21st of May, raised a most terrible clamour; and Law became the execration of France, instead of being considered as its saviour. He was banished, and reduced to beggary the same day.

What profit could either the Regent, or Law, have reaped from the success of such an operation? Had the coin been raised to 130 livres the marc, no hurt would probably have ensued, and the same effect would have been produced.

Had matters been left without any change at all, no bad consequences would have followed: these existed only in the heads of the French theorists. There was, indeed, twice as much money in bank notes as in coin, in the whole kingdom of France: and what then?

When the Regent saw the fatal effects of his arret of the 21st of May, he revoked it on the 27th of the same month. On the 29th, he raised the coin to 82 livres 10 sols in the marc, and re-established all the paper at its former denomination: but, as Dutot has said, confidence was gone, and was no more to be recalled. Nothing surprises me, but that she lived so long under such rough management.

Dutot, in talking of this augmentation of the coin, on the 29th of May, to 82 livres 10 sols, says, 'This operation was consistent with the principles of public credit, and advantageous. They would have done better had they pushed the augmentation to 135 livres the marc; which would have made the specie of France equal to the sum of bank notes.' These are his words, p. 165.

Are not these very sensible principles, coming from a man who has written a book, which indeed few people can understand, in order to prove the great hurt of tampering with the coin of France?

Chap. XXXII

Conclusion of the Mississippi Scheme

The Regent, persuaded that the blunder of the 21st of May was absolutely irreparable, fell to work next to clear accompts with the company.

He owed them 1600 millions capital, and 48 millions a year of interest upon it.

On the other hand, he had in his possession no less than 400,000 actions, which at 200 livres dividend, which the company was obliged to pay, amounted to 80 millions a year.

How the Regent and the company settled matters I do not know precisely. This, however, is certain, that by the arret of the 3d of June 1720, the number of 400,000 actions, belonging to the Regent, were burnt; and 24,000 more, which had been created by his particular order, the 4th of October 1719, and never delivered to the company, were suppressed.

On the other hand, the company ceded 25 millions a year, of the 48 millions which had been transferred to them.

This sum was constituted anew upon the town-house of Paris, as a fund to be subscribed for by the proprietors of bank notes, at the rate of 2 1/2 per cent or as the French call it at the 40th penny. (Dutot, p. 168.) In consequence of this, 530 millions of bank notes were subscribed for, and paid in, in the month of June 1720.

After the destruction of the 400,000 actions, the credit of
the bank notes languished until the 10th of October 1720.

The object for which they were created was now gone. The whole scheme of transferring the King's debts upon the company vanished in the conflagration of the actions. What was then to be done?

The bank was at an end: 2235 millions of discredited bank notes in circulation, and a small sum of coin to make them good, was a situation which no authority could long support.

The resolution then was taken to put a final conclusion to this great affair; to bid a long farewell to credit and confidence; and to return to the old system of rents upon the town-house of Paris; and of coming at money in the best way they could.

In this light I see the Mississippi scheme. I may, no doubt, be mistaken in many things: the lights, or rather the glimmerings, by which I have been conducted through this inquiry, must plead my excuse.

But it is not facts so much as principles, I have been investigating through this whole disquisition; and the imperfect account I have been able to give of the former, will at least point out, I hope, the notions which the French nation, at that time, had of the latter. If the contrast between French principles, and those I have laid down, tend to cast any light upon the subject of paper credit in general, my end is accomplished: if they ever prove of use to mankind, I shall not think my labour lost.

Chap. XXXIII

Why Credit fell, and how it might have been supported

I shall now make a few general observations upon the total and sudden fall of credit in France in May 1720: and I shall suggest the means by which, I think, it might have been sustained, even after all the preceding mismanagement.

Was it any wonder that the French should be astonished at this prodigious revolution, at this immense value of paper on the 21st of May, and at the total discredit of every bit of it the very day following?

If there had been a value, said they, what became of it? If there never was any value, how could a nation be so deceived? This phaenomenon has puzzled many a head; but the nature and principles of credit furnish an easy solution of it.

In deducing the principles of credit, we have shewn that a permanent and well secured fund of interest is always equal in value to a corresponding capital.

The difference between a permanent and well secured fund, and a precarious and ill secured fund, consists in this, that the first never can disappear, and the other may.

Now the fund, in this case, was at first real and did exist; but it was rendered precarious, by a blundering administration: then credit filed, and in that convulsion, the fund of interest was fraudulently diminished by an act of power.

Had the true principles of credit been understood in France, the bank notes and actions might have been supported, even after the arret of the 21st of May: and all the monstrous value of paper, rised so high by the low rate of interest, might have been preferred: consequently this value, in capital, really existed relatively to the rate of interest.

As the object of the present disquisition into the principles upon which the Mississippi scheme was conducted, is only intended
as an illustration of the principles of credit in general; I shall first account for the wonderful phaenomenon above mentioned and then shew how, in the greatest of all the French distress, their credit might have been reestablished in a more solid manner than ever.

As to the wonderful phaenomenon of the prodigious wealth created by the system, and annihilated in one day, I answer, that there had been no creation of wealth at all, except in consequence of the fall of interest.

First, We have seen that at the death of the late King of France, the interest of his debts amounted to 80 millions. Was not this a fund which ought to have been made solid and permanent? Will any man say, that a regular plan of paying this interest was a means of creating new wealth? Certainly not.

Secondly, These debts were mostly secured by contracts of constitution of annual rents upon the town-house of Paris: a security taken in the name of a particular creditor, which requires a form of law to transfer.

By the scheme we have been explaining, all these securities were changed: and instead of constitutions of rent, bank notes, in which the King was equally debtor, were given.

Will any man say, that this was the means of either increasing or diminishing the wealth of France? Certainly not. A man who has a good bond in his pocket is as rich before it is paid with bank notes as after: but he has not so much money in his hands; because the bond is not money, and the notes are.

Thirdly, We have said that the interest of the King's debts amounted to 80 millions a year, at 4 per cent.

We have seen how the company of the Indies were provided with a fund equal to this sum, arising from the 48 millions which the King paid for the loan of the paper with which the debts were to be paid, and from many other lucrative branches of revenue; which instead of being burthensome to the King, were, on the contrary, the means of augmenting his income, by the advanced rent the company gave for the different farms which produced them.

Had the public creditors, therefore, vested their claims in actions, they would, in consequence of that operation, have become sharers in the fund of 80 millions a year, administered by themselves, (and they would then have been the company) open to be improved by trade abroad, and by a good administration at home.

Had this system been carried on in a plain easy way, consistently with common sense, the public creditors would have been paid; the King's revenue augmented; and it would have been put under a good and a cheap administration.

But, when, by the absurd operations of changing the denominations of coin and paper, and wantonly playing with every man's property, the creditors saw themselves standing on the brink of a precipice; and finding, instead of a good contract on the town-house of Paris, a bank note put into their hands, which might be diminished in its value by one half every month, while at the same time the coin might be raised to double, it was very natural to suppose, that the intention of the King's ministers was to withdraw from them totally these 80 millions, to which they were entitled: in which case, there was an annihilation indeed of all the notes; but there was no annihilation of wealth: for in that case, the wealth was still the same, only it was transferred from the creditors to the King the debtor: that is, the creditors were defrauded.

On the other hand, stood the proprietors of the actions sold. These had been used to make a traffic of buying and selling the
200,000 actions which had been in their hands ever since September 1717, when they were first created. For we have shewn, that the posterior creation of actions by the united company, was a mere delusion, as they were all found in the custody of the Regent. The actions, I say, were immediately put into a state of stagnation; because of the discredit cast upon the bank notes, with which it had been usual to buy them.

Fourthly, I must observe, that the stagnation of a paper which carries no interest, is equal to a temporary annihilation. The holder then is deprived of the use of his money; and he is not paid for the loss he sustains.

If, therefore, it had been possible to have given a new activity to this bank paper, without allowing it to die away, as it were, in this temporary fit of fainting, credit would have revived: all accompts would have been kept clear, for this is the use of paper money, and so short a shock would hardly have been felt.

But the great damage resulting to the public, upon every occasion of this kind, proceeds from the delay in applying the proper remedy. When any paper is discredited, it immediately falls in its value. The person then who is the original and real creditor for the whole value, and in whose hands the paper is when it suffers the discredit, sells at discount: this is an irretrievable loss to him; and when the paper recovers its credit again, either in part, or on the whole, the profit then belongs to the person who had bought it at discount, and does not go to indemnify the real sufferer.

This was the case with respect to the notes of the French bank: they were allowed to languish from the 21st of May that they were discredited, until the 10th of October, when their fate was decided, as has been said.

Farther, we have seen, that this whole movement of credit had for its basis 80 millions a year, originally paid to the creditors for their interest. This sum answered to the capital of 2000 millions; because at the old King's death, interest was fixed at 4 per cent.

When, by the operations of the system, all this capital was turned into money, that is, bank notes, the regorging plenty of it made interest fall to 2 per cent consequently, the capital, which constantly draws its value from the interest paid for it, rose to 4000 millions. We have said that the total value of the paper rose to 6000 millions, but we must reflect, that above 2000 millions of these 6000 millions was in bank notes, and employed in buying of actions. So that both the notes and the actions must not be reckoned as existing together.

Had the Regent sold the actions, he would have burnt 2000 millions of bank notes, and thus the value in paper would have remained at 4000 millions, so long as interest remained at 2 per cent; and had interest fallen still lower, and dividends remained at 200 livres per action, the value of actions, and consequently of this capital of 4000 millions, would have risen in proportion, just as the value of the capital of the debts of Great Britain rises and falls according to the rate of money; although the same sum of interest be paid to the creditors at all times.

This augmentation, therefore, upon the value of all capitals, during the Mississippi, of lands as well as actions, was in consequence of the fall of interest, and from no other artifice whatever. Lands in France, at that time, sold at 80 and 100 years purchase. (Dutot, vol. II, p. 200.)

When credit failed, and when all the circulating paper was thrown into a state of stagnation, interest rose, in proportion
to the deficiency of the supply for the demands of borrowers. The value of capitals then diminished. But this might have happened from another cause, had there been no bankruptcy, or intention to defraud the creditors: a war might have produced it; or any circumstance which might have raised the rate of interest.

The rise, therefore, upon capitals, from the fall of interest, I consider here as no acquisition of wealth: I reckon wealth to be that which is the annual produce of the capitals.

So much for the resolution of this wonderful phaenomenon.

I must now shew that in the height of the distress, the confidence of the public was still to be regained, and credit recovered, even after the fatal arret of the 21st of May 1720.

I lay it down as a principle, that whoever has a sufficient fund, and pays interest regularly for the money he owes, runs no risk of losing his credit.

So soon, therefore, as the Regent found that by his arret of the 21st of May, all credit had disappeared; had he, upon the 27th of the same month, or at the time he raised the coin to 82 livres 10 sols per marc, ordered all bank notes presented to the bank, either to be paid in coin, or marked in the books of the bank as bearing interest at 2 per cent. I say, credit would not have suffered in any comparison to what it did. Nobody then would have sold a note at discount; and, had it been necessary, he might have ordered the interest to be paid monthly.

The authority I have for this opinion is Dutot, who says, that upon opening the subscription of 25 millions in the month of June, the notes fell in their value 11 1/2 per cent only.

Now the rate of this subscription was at 2 1/2 per cent as we have seen; consequently, if 100 livres of notes lost but 11 1/2 per cent they were worth 88 1/2 livres in coin; but these 100 livres in notes were worth 2 1/2 per cent because the subscription was open at that rate: consequently 88 1/2 livres in coin was also worth 2 livres 10 sols per annum: consequently interest, at that time, was at 2.825 per cent that is, below 3 per cent even after the bankruptcy.

Where then was the great harm? Where was the occasion to fly immediately to the destruction of actions, which were in the Regent's own hand? A little patience, and good management, would have set all to rights.

I should, therefore, have left the notes in circulation under this regulation, viz. that such as should be presented to the bank should have had a transfer of 2 per cent paid quarterly; or a value, in actions, at 10,000 livres per action; which is the capital answering a dividend of 200 livres at 2 per cent at the option of the holder: and in case interest had come to fall still lower, the price of actions might have been augmented.

I should have set before the public a full and exact account of the company's funds. I should have banished all mystery from the affairs of credit. I should have registered a declaration in parliament, setting forth,

First, That all future changes either upon the denominations of paper or coin, were contrary to the maims of good government.

Secondly, That all stipulations between the King and his creditors, were to be inviolable. And,

Thirdly, That the parliament of Paris should for ever remain invested with an exclusive right to watch over these regulations in time to come; and I should have bound the parliament by a special oath for this purpose. I should even have had the King to take the same oath: and he might have ratified it at his coronation in 1725.

By these steps I should have vested a new power in the Kings
of France which they never had before: a power of having money from their subjects, from their allies, and from their enemies: a power they have not, nor ever will have, until the principles of credit be better understood among them.

Had such a plan been followed, I have not the least doubt, but that, first, The actions would have been sold at a very great advanced value above the standard of 5000 livres, at which the Regent had bought them: secondly, That money would have come back to 2 per cent and then, thirdly, Had banks been established upon a proper plan, ease, with industry, would long ere now have appeared in every corner of that kingdom.

How finitely more easy would it have been to establish such a plan in 1720 than at present? At that time the most difficult part of the whole was executed. The creditors had taken notes for their claims: the credit then was given and accepted. There was nothing to be done but to support it. The creditors were then at the mercy of the state: at present the state is at the mercy of the creditors. Were such operations on coin to take place at present, as were then familiar; were the King at present to attempt to turn the constitutions of rent, perpetual and life-annuities, into any other form than what they have, the credit of France would be undone for a long time; and who knows what views of ambition a situation so deplorable might not stir up in certain courts of Europe.

What state would pay its debts, if it durst do otherwise? And what state can diminish its debts in any other way than by lowering the interest upon them? But of this more in its proper place.

Chap. XXXVI

Of Banks of Deposit and Transfer

I now dismiss the subject of banks of circulation. The unspeakable advantages drawn from this institution, when properly regulated, in supplying money at all times to those who have property for the encouragement of industry, and for improvements of all sorts, and the bad consequences which result to society, from the abuse they are exposed to, has engaged me, perhaps, in too long a discussion of various circumstances relating to them.

I now come to treat of banks of deposit or of transfer of credit: an institution of the greatest utility for commerce.

These two species of banks differ essentially in two particulars.

First, That those of circulation serve the purpose of melting down unwieldy property into money; and of preserving the quantity of it at the proportion of the uses found for it. Those of deposit, are calculated to preserve a sum of coin, or a quantity of precious moveables, as a fund for carrying on the circulation of payments, with a proportional value of credit or paper money secured upon them.

Secondly, In the banks of circulation, the fund upon which the credit is built, is not corporeally in the custody of the bank; in the other it is.

The fundamental principle, then, of banks of deposit, is the faithful preservation of the fund delivered to the bank, upon which credit, in money, is given for the value.

If at any time a bank of deposit should lend, or should in anywise dispose of any part of this fund, which may consist in coin, bullion, or any other precious moveable, once delivered to them, to the end that a credit in money may be written down for
it in their books of transfer, in favour of the depository, and
his assigns; by this act, the bank departs from the principles
upon which it is established. And if any bank be established
which, by its regulations, may so dispose of the fund of its
credit, then such a bank becomes of a mixed nature, and
participates of that of a bank of circulation.

These things will be better understood by reasoning from an
element of a true bank of deposit.

Chap. XXXVII

Of the Bank of Amsterdam

Many authors have written concerning this great bank of
deposit: particularly, Davenant, Sir William Temple, Ricard, in
his Traité de Commerce revu par Struyk, the author of the Essai
sur le Commerce, and Mr Megens, in his book, which has been
translated into English, under the title of The Universal
Merchant.

In these authors we find a number of facts, which I shall
combine with my own informations, and here apply principles to
them; in order to communicate a distinct idea of this
establishment. A detail of its particular operations regards
practice, and falls not within my subject.

The original intention of the States of Holland, in
establishing the bank of Amsterdam, was to collect a large
capital in coin within that city, which might there perpetually
remain, buried in a safe repository for the purposes which we are
now to explain.

In order to accomplish this plan they established the bank
upon the 31st day of January 1609.

The method they fell upon to collect the coin, was to order,
that all bills of exchange, for any sum exceeding 300 florins,
should be paid in specie to the bank; and that the holder of such
bills should, instead of receiving the coin, have the value of it
written down in the books of the bank to his credit, at his
command, to be transferred to any person he should appoint; but
never more to be demandable from the bank in specie.

By this operation, the mass of coin circulating constantly
from hand to hand, between the merchants of Amsterdam, began, by
degrees, to be heaped up in the bank; and as the heap augmented,
so did the sum of credit augment upon the books of the bank.

It is evident, from this change in the mode of circulation,
that no loss could be incurred from the locking up of the coin.

As long as coin is in a state of constant circulation, it can
produce no interest to any person. Interest commences from the
moment the coin begins to stagnate; that is to say, so soon as it
comes into the hands of one who has no ready money demand upon
him. When this happens, the proprietor lends it at interest.

Now the credit in the books of the bank, which is every day
transferable at the bank, answers every purpose of coin, either
for payment or loan: and the proprietor has neither the trouble
of receiving the species, nor any risk from robbery, or false
coin.

The first advantage the city reaped from this institution,
was, to secure the residence of trade in that place.

Capitals transferable only at the bank, laid the proprietors
under a necessity of fixing their dwelling where their funds
were, and where only they could be turned to accompt.

It had another excellent effect in commerce: it pointed out
the men of substance. A credit in bank is no wise equivocal; it
is a fund of undoubted security.

From the constitution of this bank we may form an estimate of the extent of the deposit.

It can only swallow up a sum equal to what is necessary for circulating the payments of the city of Amsterdam. Were a sum exceeding this to be shut up in the bank, and were the credits written in the books of the bank to exceed this proportion, it is plain, that the value of the bank money would sink immediately. The reason is obvious: the credits transferable are of no use to those who have no occasion to transfer; that is, to pay, lend, or exchange at Amsterdam. So soon, then, as all the demand of Amsterdam is satisfied, the proprietors of the overplus will seek to realize their superfluous credit, in order to invest the value arising from it, in some other place where a demand may arise.

In order to realize, they must sell their bank credit for coin; because the bank pays in transfer only. Coin then would be demanded preferably to credit in bank; consequently, coin would rise in its proportional value to bank money, or bank money would lose, which is the same thing. This fluctuation between bank money and coin, leads me to explain what is called the agio of the bank.

NOTES:

1. Solid property, here, is not taken in the strictest acceptation. In countries of commerce, where banks are generally established, every denomination of good personal security may be considered as solid property. Those who have personal estates, may obtain credit from banks as well as landed men; because these personal estates are secured either on lands, or in the funds, or in effects which contain as real a value as lands, and these being affected by the securities which the proprietors grant to the bank, may with as much propriety be said to be melted down, as if they consisted in lands. In subjects of this nature, it is necessary to extend the meaning of our terms, in proportion to the circumstances concerning which we reason.

2. Let it be remarked in this place, that although all persons obtaining credit from a bank for a determinate sum, be obliged to grant a proper security for the whole sum; yet by the nature of the obligation, no interest becomes due to the bank in consequence of it, except in proportion to the sums advanced, and to the time of such advance by the bank. Example: A. Obtains a credit from a bank for one thousand pounds. After one month he makes a call for one hundred pounds; the interest of this hundred pounds commences from the day only on which the bank pays it; and were A. to replace this sum to the bank one week after, he will be liable for one week's interest only, of one hundred pounds notwithstanding that his obligation lies in the hand of the bank for one thousand pounds. When, therefore, in the course of this subject, we shall make mention of the interest due to the bank upon the securities in their hand, for the credits they have given; this is always understood to be restricted to the sums actually advanced by the bank upon such credits.

3. At this time there was another circumstance, besides the demand of a balance to be paid abroad, which distressed the bank, viz. a suspicion which took place, that if the rebellion had succeeded, the credit of the bank would have totally failed.

This very case points out the great advantage of banks upon
mortgage of private credit.

We have said, that the credit of such banks ought to be established upon the principles of private securities only. If their notes be issued upon solid property, then no rebellion can influence them: but of this more hereafter.

4. We are not to suppose that this yearly balance of 200,000 l. is always to continue. We have seen how it has been occasioned by a course of unfavourable circumstances, which have run Scotland in debt; we have seen how the banks may interpose their credit, in order to assist the country in paying it; and we shall see, before we dismiss this subject, how they will be enabled to repay it, and set Scotland free, by a return of a favourable balance upon their commerce. Let it then be remembered, that all those contracts in England are properly the debts of Scotland, not of the banks. Scotland, therefore, and not the banks, must be at all the expense thereby incurred. These points shall be explained as we go along.

5. Here the bank departed from the principles of private and mercantile credit, upon which Law had formed it, and proceeded upon those of public credit. Public credit in France is the credit of the Sovereign; the solidity of which depends upon the maxims which he follows in the course of his administration.

6. Dutot, speaking of the great value of paper in notes and actions, throws out several reflections, in the passage I am now to transcribe from him, which, at the same time that they prove the great advantages resulting to France from the establishment of credit among them, abundantly evince how lame this author's ideas were concerning the principles of paper credit, and of circulation. He says, (vol. ii p. 200) 'This paper was indeed just so much real value, which credit and confidence had created in favour of the state: and by this sum was circulation augmented, independently of all the coin which was then in France.

Upon this revolution, Plenty immediately displayed herself through all the towns, and all the country. She there relieved our citizens and labourers from the oppression of debts, which indigence had obliged them to contract: she revived industry: she restored that value to every fund, which had been suspended by those debts: she enabled the King to free himself, and to make over to his subjects, for more than fifty-two millions of taxes, which had been imposed in the years preceding 1719; and for more than thirty-five millions of other duties, extinguished during the regency. This plenty sunk the rate of interest; crushed the usurer; carried the value of lands to eighty and a hundred years' purchase; raised up stately edifices both in town and country; repaired the old, which were falling to ruin, improved the soil; gave a value to every fruit produced by the earth, which before that time had none at all. Plenty recalled those citizens, whom misery had forced to seek their livelihood abroad. In a word, riches flowed in from every quarter. Gold, silver, precious stones, ornaments of all kinds, which contribute to luxury and magnificence, came to us from every country in Europe. Whether these prodigies, or marvellous effects, were produced by art, by confidence, by fear, or by whim if you please, one must agree, that that art, that confidence, that fear, or that whim, had operated all these realities which the ancient administration never could have produced.

What a difference in the situation of France at the beginning
of the regency, and the situation in which she was in November 1719!

Thus far the system had produced nothing but good: everything was commendable, and worthy of admiration.' These are the sentiments of Dutot concerning this system of paper credit.

Part III

Of Exchange

Chap. I

Of the first Principles of Exchange

Having ended what I had to say of banks, in which most of the principles of private credit and domestic circulation, have been sufficiently deduced, I now proceed to the doctrine of exchange, which is the principal operation of mercantile credit, for the carrying on of foreign circulation.

The security which merchants commonly take from one another when they circulate their business, is a bill of exchange, or a note of hand: these are looked upon as payment. When they give credit to one another in account, or otherwise, the cause of confidence is of a mixed nature; established partly upon the security of their effects, partly on the capacity, integrity, and good fortune, of the person to whom the credit is given.

No man but a merchant has any idea of the extent and nature of this kind of credit. It is a thing to be felt, but cannot be reduced to principles; and merchants themselves can lay down no certain rules concerning it. It is an operation which totally depends upon their own sagacity.

But when they deal by bills of exchange, the case is very different. The punctuality of acquitting these obligations is essential to commerce; and no sooner is a merchant's accepted bill protested, than he is considered to be a bankrupt. For this reason, the laws of most nations have given very extraordinary privileges to bills of exchange. The security of trade is essential to every society; and were the claims of merchants to linger under the formalities of courts of law, when liquidated by bills of exchange, faith, confidence, and punctuality, would quickly disappear; and the great engine of commerce would be totally destroyed.

A regular bill of exchange is a mercantile contract, in which four persons are concerned, viz. First, The drawer, who receives the value: Secondly, His debtor in a distant place, upon whom the bill is drawn, and who must accept and pay it: Thirdly, The person who gives value for the bill, to whose order it is to be paid: and, Fourthly, The person to whom it is ordered to be paid, creditor to the third.

By this operation, reciprocal debts, due in two distant parts, are paid by a sort of transfer, or permutation of debtors and creditors.

(A) in London, is creditor to (B) in Paris, value 100 l. (C) again in London, is debtor to (D) in Paris for a like sum. By the operation of the bill of exchange, the London creditor is paid by the London debtor, and the Paris creditor is paid by the Paris debtor; consequently, the two debts are paid, and no money is sent from London to Paris, nor from Paris to London.

In this example, (A) is the drawer, (B) is the acceptor, (C) is the purchaser of the bill, and (D) receives the money. Two persons here receive the money, (A) and (D), and two pay the
money, (B) and (C); which is just what must be done when two debtors and two creditors clear accounts.

This is the plain principle of a bill of exchange. From which it appears, that reciprocal and equal debts only can be acquitted by them.

When it therefore happens, that the reciprocal debts of London and Paris (to use the same example) are not equal, there arises a balance on one side. Suppose London to owe Paris a balance, value 100 l. How can this be paid? I answer, that it may either be done with or without the intervention of a bill.

With a bill, if an exchanger, finding a demand for a bill upon Paris, for the value of 100 l. when Paris owes no more to London, shall send 100 l. to his correspondent at Paris in coin, at the expense, I suppose, of 1 l. and then, having become creditor on Paris, he can give a bill for the value of 100 l. upon his being repaid his expense, and paid for his risk and trouble.

Or it may be paid without a bill, if the London debtor shall send the coin himself to his Paris creditor, without employing an exchanger.

This last example shews of what little use bills are in the payment of balances. As far as the debts are equal, nothing can be more useful than bills of exchange, but the more they are useful in this easy way of business, the less profit there is to any person to make a trade of exchange, when he is not himself concerned, either as debtor or creditor.

When merchants have occasion to draw and remit bills for the liquidation of their own debts, active and passive, in distant parts, they meet upon Change; where, to pursue the former example, the creditors upon Paris, when they want money for bills, look out for those who are debtors to it. The debtors to Paris again, when they want bills for money, seek for those who are creditors upon it. This is a representation of what we have frequently called the money market, in which the demand is for money, or for bills.

This market is constantly attended by brokers, who relieve the merchant of the trouble of searching for those he wants. To the broker every one communicates his wants, as far as he finds it prudent; and by going about among all the merchants, the broker discovers the side upon which the greater demand lies, for money, or for bills.

We have often observed, that he who is the demander in any bargain, has constantly the disadvantage in dealing with him of whom he demands. This is no where so much the case as in exchange, and renders secrecy very essential to individuals among the merchants. If the London merchants want to pay their debts to Paris, when there is a balance against London, it is their interest to conceal their debts, and especially the necessity they may be under to pay them; from the fear lest those who are creditors upon Paris should demand too high a price for the exchange over and above par.

On the other hand, those who are creditors upon Paris, when Paris owes a balance to London, are as careful in concealing what is owing to them by Paris, from the fear lest those who are debtors to Paris should avail themselves of the competition among the Paris creditors, in order to obtain bills for their money, below the value of them, when at par. A creditor upon Paris, who is greatly pressed for money at London, will willingly abate something of his debt, in order to get one who will give him money for it.

It is not my intention to dip into the intricacies of
exchange: all intricacies must here be banished; and instead of
technical terms, which are very well adapted for expressing them,
recourse must be had to plain language, for pointing out the
simple operations of this trade. It is by this method that
principles must be deduced, and from principles we shall draw the
consequences which may be derived from them.

From the operation carried on among merchants upon Change,
which we have been describing, we may discover the consequence of
their separate and jarring interests. They are constantly
interested in the state of the balance. Those who are creditors
on Paris, fear a balance due to London; those who are debtors to
Paris, dread a balance due to Paris. The interest of the first is
to dissemble what they fear; that of the last, to exaggerate what
they wish. The brokers are those who determine the course of the
day: and the most intelligent merchants are those who dispatch
their business before the fact be known.

Now I ask, how trade, in general, can be interested in the
question, who shall outwit, and who shall be outwitted, in this
complicated operation of exchange among merchants?

The interest of trade and of the nation is principally
concerned in the proper method of paying and receiving the
balances. It is also concerned in preserving a just equality of
profit and loss among all the merchants, relatively to the real
state of the balance. Unequal competition among men engaged in
the same pursuit, constantly draws along with it bad consequences
to the general undertaking, as has been often observed; and
secrecy in trade will be found, upon examination, to be much more
useful to merchants in their private capacity, than to the trade
they are carrying on.

Merchants, we have said, in speaking of the bank of England,
endeavour to simplify their business as much as possible; and
commit to brokers many operations which require no peculiar
talents to execute. This of exchange is of such a nature that it
is hardly possible for a merchant to carry on the business of his
bills, without their assistance, upon many occasions. When
merchants come upon Change, they are so full of fears and
jealousies, that they will not open themselves to one another,
lest they should discover what they want to conceal. The broker
is a confidential man, in some degree, between parties, and
brings them together.

Besides the merchants, who circulate among themselves their
reciprocal debts and credits, arising from their importation and
exportation of goods, there is another set of merchants who deal
in exchange; which is the importation and exportation of money
and bills.

Were there never any balance on the trade of nations,
exchangers and brokers would find little employment: reciprocal
and equal debts would easily be transacted openly between the
parties themselves. No man feigns or dissembles, except when he
thinks he has an interest in so doing.

But when balances come to be paid, exchange becomes
intricate; and merchants are so much employed in particular
branches of business, that they are obliged to leave the
liquidation of their debts to a particular set of men, who make
it turn out to the best advantage for themselves.

Whenever a balance comes to be paid, that payment costs, as
we have seen, an additional expence to those of the place who owe
it, over and above the value of the debt.

If, therefore, this expence be a loss to the trading man, he
must either be repaid this loss by those whom he serves, that is,
by the nation; or the trade he carries on will become less
profitable to him. Every one will agree, I believe, that the expence of high exchange upon paying a balance, is a loss to a people, no way to be compensated by the advantages they reap from enriching the few individuals among them, who gain by contriving methods to pay it off: and if an argument be necessary to prove this proposition, it may be drawn from this principle, to wit, whatever renders the profit upon trade precarious or uncertain, is a loss to trade in general: this loss is a consequence of high exchange; and although a profit do result from it upon one branch of trade, namely, the exchange business, yet this profit cannot compensate the loss upon every other.

We may, therefore, here repeat what we have said above, that the more difficulty, there be found in paying a balance, the greater will be the loss to the nation.

This being admitted, I shall here enumerate all the difficulties which occur in the paying of balances. Most of them have been already mentioned from their relation to subjects already discussed; and could it be supposed, that every reader had retained the whole chain of reasoning already gone through, a repetition in this place would be superfluous: but as this cannot be expected, I shall, in as short and distinct a manner as possible, recapitulate, under four articles, what I hope will be sufficient to refresh the memory upon each of them.

The first difficulty which occurs in paying a balance, is to determine exactly the true and intrinsic value of the metals or coin in which it is to be paid; that is to say, the real par.

The second, How to remove the domestic inconveniences which occur in paying with the metals or coin.

The third, How to prevent the price of exchange from operating upon the whole mass of reciprocal payments, instead of affecting the balance only.

The remedies and palliatives for these three inconveniences once discovered, comes the last question, viz. How, when other expedients prove ineffectual for the payment of a balance, the same may be paid by the means of credit, without the intervention of coin; and who are those who should conduct this operation.

Chap. II

How to determine exactly the true and intrinsic value of the Metals, Coin, or Money, in which a Balance to foreign Nations is to be paid

This first question regards the whole mass of reciprocal payments, as well as that of the balance.

Every payment to be made of a determinate and fixed value, that is to say, of a liquidated debt, must be paid in a value equally determinate in its nature.

This I suppose to be the case, whether payment be made in the precious metals unmanufactured, that is bullion, or in a nation's coin, or in denominations of money of account. All payments in merchandize, except bullion, must suffer conversions of value before the debts can be liquidated.

Money of accompt, which is what we understand by denominations, we have defined to be a scale of equal parts, calculated to determine the value of things, relatively to one another. It must, therefore, be by the money of accompt of different nations, that the value of bullion and of coin can be ascertained.

When coin is introduced, the denominations of money are
realized in a determinate quantity of the precious metals, and the fabrication of the bullion into coin, raises the value of this commodity, bullion, like the manufacturing of every other natural production.

When coin, therefore, is employed in paying sums according to the legal denomination which it carries, it is money, not merchandize; but when it is given at any other rate than its denomination, it is merchandize, not money.

In the third book, we have shewn how utterly impossible it is to realize with exactness, the denominations of money of account, in the metals which are constantly varying in their value, and exposed to waste in circulation.

We have shewn, by many examples, how, in fact, the value of the pound sterling has been subject to great vicissitudes of late, from the great disorder of the coin.

The coin of France, is, indeed, upon a better footing in point of uniformity of weight, than ours; and the proportion of the metals in it comes nearer their present value in the market: but then as oft as the balance turns against France, the high imposition upon her coinage, exposes the coin to great fluctuations of value, when compared with bullion in the Paris market. This is also to be ascribed to the imperfection of the metals when used as money, while they are merchandize at the same time.

This being the case, the way to calculate the real par of exchange between nations, who have in common no determinate and invariable money, exclusive of coin, is to consider fine gold and silver as the next best standard.

This is a merchandize which never varies in its quality. Fine gold is always the same in every mass; and weight for weight, there is no difference in its value or quality anywhere.

This standard being once adopted, the calculation of the real par becomes an easy operation to those who know the course of the bullion market in the two places exchanging.

If, by the exportation of all the heavy coin of London, bills must be paid in a worn out currency, the rise in the price of gold in their market, above mint price, will mark pretty nearly how far it is light.

If, on the other hand, the wars of France, or an unfavourable balance upon her trade, shall oblige her to export her coin, this operation will sink the value of it, or raise the price of bullion, which ever way you choose to express it.

It is not here a proper place to resume the question, which of the two expressions is the most proper: we are here considering the value of the bullion to be the thing fixed, because it answers the purpose. But whether we say that bullion rises in the markets of Paris and London; or that the value of their currencies sink, though from very different causes, the calculation of the real par will proceed with equal accuracy. An example will illustrate this.

When fine gold is at the lowest price to which it can ever fall at Paris, that is to say, at the mint price, it is worth 740 livres 9 sols, or 740.45 livres per mark, in decimals, for the ease of calculation. The mark contains eight ounces Paris weight.

Were the ounces of Paris equal to those of troy weight, 1/8 of this sum, or 92.5562 livres, would be the value of that ounce by which gold is sold at London.

But the Paris ounce is about 1 1/2 per cent lighter than the troy ounce; and the exact proportion between them is unknown, from the confusion of weights, and the want of a fixed standard in England. By the best calculation I have been able to make, a
Paris ounce should contain 473 grains troy, which makes the proportion between the two ounces to be as 473 is to 480, which last is the number of grins in the troy ounce.

Gold bullion at Paris is regulated by the mark fine, at London by the ounce standard.

When standard gold bullion is at the lowest price it can be at London, it is worth the mint price, or 3 l. 17 s. 101/2 d. per troy ounce, which, expressed in decimals, is 3.8937 l. sterling. Standard is to fine, as 11 is to 12; consequently, the ounce fine is 4.2476 l. sterling: and if the Paris ounce of fine bullion be worth at the mint, as has been said, 92.5562 livres; the ounce troy, according to the above proportion, will be worth 93.926 livres. Divide then the livres by the sterling money, and the quotient will give you the real par of exchange of the pound sterling, while bullion remains at the mint price in Paris and in London, viz. 93/42 920/476 = 22.112 livres for the pound, or 32.56 d. sterling for the French crown of 3 livres.

Gold bullion never can rise in the Paris market, at least all the last war it never did rise, above the value of the coin; that is, to 801.6 livres the mark fine, or 100.2 livres per ounce Paris, and 101.7 livres the troy ounce.

How high the price of gold bullion may rise at London no man can say; but the highest it rose to, during the last war, was, I believe, 4 l. 0 s. 8 d. per ounce standard, or to 4.3999 l. sterling per ounce fine. By this divide the value of the ounce troy fine in French livres, the real par at this rate of the metals in both cities will be 101.7/4.3999 = 23.11 livres for the pound sterling, or 31.155 pence sterling for the French crown of 3 livres. But suppose two cases which may happen, viz. 1. That gold bullion at Paris should be at the price of coin, while at London it may be at mint price: or, 2. That at Paris it may be at mint price, when at London it is at 4 l. 0 s. 8 d. what will then the real par of exchange be?

I answer, that on the first supposition, it will be one pound sterling, equal to 23.939 livres, and the crown of 3 livres equal to 30.076 pence sterling. In the other, equal to 21.34 livres for the pound sterling, and for the crown of 3 livres 33.728. A difference of no less than 8.9 per cent.

Is it not evident that these variations must occur in the exchange between London and Paris? And is it not also plain, that they proceed from the fluctuation of the price of bullion, not from exchange?

We have, I think, demonstrated, in the third book, that a wrong balance upon the French trade may raise bullion in the Paris market to the price of coin; and that a right balance may bring it down to mint price. The price of coinage is above 8 per cent. So that 8 per cent of fluctuation in the price of bullion is easily accounted for in the Paris market, without taking into the account the variations in the English market.

In London, where no coinage is paid, were all the coin of full weight, and exportation free, coin and standard bullion would constantly stand at the same price: but when the heavy coin is exported, and the currency becomes light by the old coin remaining in circulation, the price of bullion rises in proportion.

Is it surprising that, at London, gold in bullion should be worth as much as gold of the same standard in guineas, weight for weight? Is it not worth as much at the mint? Why should it not be worth as much at the market? I affirm that any man may offer to pay for the ounce of all the guineas coined by Charles II, James II, and William III, now in circulation, the highest market price
that ever was given for standard gold bullion in London, and gain by the bargain.

This, I hope, will be sufficient to satisfy any body that there is a mistake in ascribing the high price paid for the French crown in the London exchange to a wrong balance upon the trade of England with France.

From this new light in which I have placed the question, I hope the arguments used in the 16th chapter of the first part of the third book, will acquire an additional force; and that thereby the eyes of this nation may be opened with regard to the interests of the French trade; a point, I should think, of the highest concern.

To calculate, as every body does, the par of the French crown, either by the gold or the silver in the English standard coin, when no such standard coin exists; and to state all that is given for the crown above 29 1/2 d. if you reckon by the silver, or 30 3/4 d. if you reckon by the gold, for the price of a wrong balance, is an error which may lead to the most fatal consequences.

If government should think fit to impose, in their own mint, a coinage, equal to that of France, and make all their coin of equal weight, and at the due proportion, it will take off all the loss we suffer by paying coinage to France (which we at present impute to the exchange) while she pays none to us. But then it will occasion nearly the same fluctuations upon the real par of exchange as at present; only from another cause on the side of Great Britain. At present our exchange becomes favourable from the weight of our own currency, and the balance against France upon her trade; which, in Paris, raises the price of the bullion with which we pay our French debts. On the other hand, our exchange becomes unfavourable from the lightness of our own currency, from the coinage we pay to France, and balance against us; which last carries off all our new guineas; and in the Paris market, sinks the value of that bullion in which we pay our French debts.

Were matters put upon a right footing, we should gain from France the price of our coinage, when our balance is favourable, and pay coinage to France when their balance is favourable; instead of seeing our exchange turn more in our favour, from the additional weight only of the coin in which we pay.

If French coinage should appear too high a price for the interest of other branches of British trade, a question I shall not here determine, let us impose at least as much as to keep our guineas out of the melting pot, and banish all the old coin which throws us into such confusion.

What has been said is undoubtedly too much upon this subject for the generality of readers. The number of those who can go through a chapter like this with pleasure is very small. But if the idea I have been endeavouring to communicate, be found just by one man of capacity, whose opinion shall have weight in the deliberations of Great Britain, the consequences may be of great advantage to this nation; and this consideration will, I hope, plead my excuse.

I shall now set this question in another point of view, from which the stress of my arguments will be felt, and all intricate reasonings will be laid aside.

Does not the price of exchange, or what is given above the par, proceed from the expence of sending the metals from the one place to the other, the insurance of them, and the exchanger's profit? If this be true, which I believe nobody will deny, must not what is paid for the bill, over and above these three
articles, be considered as the real par, relatively to exchange? Now does the price of the bullion which the exchanger pays in his own market, or the price he gets for that bullion in the market to which he sends it, at all enter into the account of the transportation, risk, and profit, which the exchanger has on the operation? Certainly not. May there not be a very great difference between the buying and selling the very same bullion in different markets at one time and another? Ought we not to charge this to some other account than to the price of exchange, which is confined to the expence of transporting the balance only, and when two objects totally different are included under the same term, does it not tend to perplex our notions concerning them?

The great variation in the price of bullion in France, for example, and the expence of procuring it, proceeds from three causes. The first is, the coinage imposed in France, while none is imposed in England. What, therefore, is paid upon this account, is profit to France, and loss to England.

The second cause of variation, is the debasement of the value of the pound sterling, when the heavy gold has been sent abroad. This loss affects the nation, and every man in England, in the quality of creditor for sums specified in pounds sterling, to the profit of all debtors.

The third cause of variation, is from the great expence exchangers are put to, in procuring the metals from other countries, when they cannot be got at home: the consequence of this shall be explained in a succeeding chapter.

As all these causes are combined in the exchange upon bills when they come to market, I think it is proper to analize them, before the doctrine we are upon can be distinctly understood.

I shall therefore conclude my chapter with this proposition.

That the best method of determining exactly the true and intrinsic value of the metals, coin, or money, in which the balance due to or from a foreign nation is to be paid, is to compare the respective value of fine bullion with the respective denominations of the coin in the one and the other; and to state the difference as the price paid for the exchange.

Chap. III

How to remove the Inconveniences which occur in paying Balances with the Metals or Coin of a Nation

The inconveniences which occur when balances are to be paid in bullion or coin are these:

First, the want of secure and ready transportation, from the obstructions government throws in the way to prevent it.

Secondly, The difficulty of procuring the metals abroad when they are not to be found at home.

When we speak here of balances to be paid from one country to another, we understand that the general amount of the whole payments to be made to the world, exceeds the sum of all that is reciprocally due from it. So far as a balance due to one country is compensated with a balance due by another, they may be mutually discharged by bills of exchange, according to the principles already laid down. All compensations being made by bills drawn for reciprocal debts, we must here suppose a balance due by the country whose interest we are considering. This, like debts between private people, must either be paid in intrinsic value, or by security for it; that is, by contracting a permanent debt bearing interest. The first is the question here before us;
the second will be examined in the succeeding chapter.

The first difficulty mentioned, to wit, the want of secure
and ready transportation of the metals, proceeds in a great
measure from the obstruction government throws in the way, to
prevent the exportation of them. To remove which difficulty, it
is proper to shew how far it is the interest of government to
obstruct, how far to accelerate the transportation of the metals.

We have said that it is the advantage of every state, in
point of trade, to have balances paid with the least expence. If
then we suppose that it is either necessary or expedient that
this balance should be paid in the metals, government, in this
case, should facilitate by every method the sending them off in
the cheapest and securest way.

But since governments do not generally follow this rule, we
must examine the reasons which engage them to prefer a contrary
direct.

The principal, the most general, and most rational objection
against the exportation of the metals, is, that when it is
permitted without restriction, it engages the people, when they
go to foreign markets for articles of importation, to run to the
coin, instead of carrying thither the product and manufactures of
the country. From which a consequence is drawn, that as long as
coin and bullion are fairly allowed to be exported, the rich
inhabitants will employ them for the purchase of foreign
commodities, to the hurt of domestic industry.

This is an objection of great weight, relatively to the
situation of many nations. The Spaniards and Portuguese feel it
severely. Many individuals there are very rich; the numerous
classes of the people are either lazy or not properly bred to
industry. In this situation the alternative to government is very
disagreeable. Either the rich must be deprived of many enjoyments
with which their industrious neighbours alone can supply them,
until, by very slow degrees, the lowest classes of their
countrymen can be engaged to change their way of living, and be
inspired with a spirit of industry; or they must be allowed to
gratify the desires which riches create, at the expence of the
nation’s treasure, and the improvement of their country.

From this alternative we discover the principle which must
direct the conduct of a statesman under such circumstances, viz.
To forbid the importation of every foreign manufacture
whatsoever; to submit to the hardships necessarily implied in the
circumstances of the nation; and to pay freely what balance may
be owing upon natural produce imported for the uses of
subsistence or manufacture.

This is a plan more rational and more easily executed, than a
general prohibition to export the metals; because by good
regulations, you may prevent the importation of manufactures; but
it is hardly possible to prevent the exportation of the metals
necessary to pay for what you have bought from strangers, by the
permission of government: and on the other hand, suppose you do
effectually prevent the exportation of the metals, the
consequence will be, to put an end to all foreign trade even in
natural produce, which on many occasions may be necessary for the
subsistence of the people. What nation will trade with another
who can pay only by barter? All credit will likewise be cut off;
for who will exchange by bills, with a place which cannot pay,
either in their own currency, or with the metals, the debts which
they reciprocally owe?

The maxim therefore, here, is to prevent as much as possible
the contracting of debts with strangers; but when they must be
contracted, to facilitate the payment of them.
This reasoning is calculated to direct a statesman who finds himself at the head of a rich luxurious nobility, and an idle or ill-instructed common people, surrounded by industrious neighbours, whose assistance may be necessary upon many occasions, to provide subsistence, or the materials of manufacture, for his people; and this while he is forming a scheme for introducing industry at home, as a basis for establishing afterwards a proper foreign commerce.

But in this subject combinations are finite, and the smallest change of circumstances throws the decision of a question on a different principle.

I will not therefore say, that in every case which can be supposed, certain restrictions upon the exportation of bullion or coin are contrary to good policy. This proposition I confine to the flourishing trading nations of our own time.

To set this matter in a fair light, and as an exercise upon principles, I shall borrow two examples, one from history, and another from a recent experiment made in France, in which a clog upon the exportation of the metals and coin was very politically laid on.

We learn from the history of Henry VII of England, a sagacious Prince, that he established very severe laws against the exportation of bullion; and obliged the merchants who imported foreign commodities into his dominions, to invest their returns in the natural produce of England, which at that time consisted principally in wool and in grain.

The circumstances of the times in which that Prince lived, must therefore be examined, before we can justly find fault with this step of his political oeconomy.

In Henry the VIIth’s time, the foreign trade of England was entirely in the hands of foreigners, and every elegant manufacture almost came from abroad.

Under such circumstances, is it not plain, that the prohibition to export bullion and coin, was a compulsion only concomitant with other regulations, to oblige the foreign merchants, residing in his kingdom, to buy up the superfluity of the English natural produce of wool and grain? Had not the King taken these measures, the whole money of the nation would have been exported; the superfluous natural produce of England would have lain upon hand; the redundancy of which would have brought the price of them below the value of the subsistence of those who produced them; agriculture would have been abandoned; and the nation would have been undone.

I allow that nothing is so absurd as to permit the consumption of foreign productions, and to forbid the exportation of the price of them. I also allow that every restraint laid upon exporting silver and gold, affects the consumer of foreign goods, and obliges him to pay the dearer for them; but this additional expence to the consumer, does not augment the mass of foreign debts. The debt due abroad will constantly be paid with the same quantity of coin, whether the exportation of it be allowed or not; because the loss of those who pay the balance arises from the risk of confiscation of the money they want to export against law; or from the high exchange they are obliged to pay to those who take this risk upon themselves. In both cases, the additional expence they are put to remains in the country, and is repaid them by the consumers; consequently, can never occasion one farthing more to be exported. Prohibitions, therefore, upon the exportation of specie, are not in every case so absurd as they appear at first sight. It is very certain that nobody ever gives money for nothing; consequently, a state may rest assured that
the proprietors of the specie, their subjects, will take sufficient care not to make a present of it to foreigners. The intention, therefore, of such prohibitions is not so much to prevent the payment of what people owe, as to prevent that payment from being made in coin or bullion; and also to discourage the buying of such foreign commodities as must be paid in specie, preferably to others which may be paid for with the returns of home produce.

When a statesman, therefore, finds the balance of trade, upon the main, favourable to the country he governs, he need give himself no trouble about the exportation of the specie, from this single principle, to wit, that he is sure that what is exported is not given for nothing; and that the favourable balance cannot fail to bring it back again, together with an additional supply. But when the balance turns against him in the regular course of business, not from a temporary cause, then he may lay restraints upon the exportation of specie, as a concomitant restriction, together with others, in order to diminish the general mass of importations, and thereby to set the balance even.

In a trading nation, I allow that no restriction of this kind ought to be made general; because it then affects the useful as well as the hurtful branches of importation: but in Henry's days, the sale of corn and wool was sufficient to procure for England all it wanted from abroad; and the interests of trade were not sufficiently understood, to enable the state to act by any other than the most general rules. Forbidding the exportation of coin was found to promote the exportation of English productions, and this was a sufficient reason for making the prohibition peremptory. In this view of the matter, did not Henry judge well, when he obliged the merchants who imported foreign goods, to invest the price they received for them in English commodities? Once more I must say it, he was not so much afraid of the consequences of the money going out, as of the corn and wool remaining at home: had he been sure of the exportation of these articles to as good purpose another way, the prohibition would have been absurd; but I am persuaded this was not the case.

The example taken from France is this. After the fatal bankruptcy in 1720, by the blowing up of the Mississippi, the trade of France languished from the effects of the instability of their coin, until the year 1726, when it was set upon that footing on which it has remained ever since. Upon that last general coinage, the same principles of enriching the King by the operation directed the conduct of the minister.

The old specie was cried down, and proscribed in circulation: but it was thought, that as it was the King's coin, he had a liberty to set a price upon it, at a different rate from any other bullion of the same fineness: and that he had also a right to command the proprietors of it to bring it to the mint at his own price.

The consequence was, that those who could were very desirous to send it to Holland, in order to draw back the full value of it, in bills upon Paris. Under such circumstances, were not prohibitions upon the exportation of this coin most consistent with the plan laid down? We shall, in the next chapter, examine the consequences of this operation upon the exchange of France.

What has been said, will, I hope, suffice to explain some of the principal motives which statesmen may have, when they lay restrictions on the exportation of the metals, with a view to favour the trade of their nation, or the interest of the
exchequer.

But besides the interest of trade, there are other reasons for laying prohibitions on the exportation of the national coin, although that of bullion be left free under certain restrictions.

As often as it happens, that the value of a nation's coin remains at par with bullion of the same weight and fineness, this coin, if exported, may be melted down. This is a loss; because it puts the nation to the expense of coining more for the use of circulation.

When nations give coinage gratis, or when they allow the coin of other nations the privilege of passing current under denominations exactly proportioned to its intrinsic value, then coin never can be worth more than any other bullion of the same standard; consequently, will be exported or smuggled out whenever there is a demand for it abroad.

If, therefore, a nation do really desire to avoid an expence at the mint, they must make it the interest of merchants to export every other thing preferably to their own coin. This is done by imposing a duty upon the coinage; and this will either prevent the coins going out unnecessarily, or if it be necessary to export it, the coin will return in the payments made to the nation; because of its advanced value above any other bullion which can be sent.

The forbidding of the exportation of coin, implies a restriction upon the exportation of bullion; because, unless the bullion be examined at the custom house, and the stamps upon it looked at, it may happen to be nothing but the nation's coin melted down, with an intention to avoid the law. For this reason, whoever brings bullion to be stamped, whether it be for exportation or not, must declare that it has not been made of the nation's coin. How slender a check are all such declarations! The only one effectual is private interest; and as no man will take his wig to stuff his chair, when he can get cheaper materials equally good, so no man will melt down coin which bears an advanced value, when he can procure any other bullion.

On the whole, we may determine, that a flourishing commercial state, which has, on the average of its trade, a balance coming in from other countries, should lay it down as a general rule, to facilitate the exportation of its coin, as well as of bullion: and if a very particular circumstance should occur, which may continue for a short time, it may then put a temporary stop to it, and facilitate the payment of the balance by the means of credit.

I have enlarged so much upon the methods of removing the first difficulty of paying a balance, with the coin or bullion found in a nation, that what remains to be said upon the second difficulty, to wit, the procuring them from other nations, need not be long.

Were the mint weights of all countries sufficiently determinate; were the regulations concerning the standard of bullion exactly complied with; and were the current market prices of this important commodity, considered as a valuable piece of intelligence every where, the bullion trade would be much easier than it is.

We have said, that when the reciprocal debts of two nations are equal, there is no occasion for bullion to discharge them. But trading nations are many; and from this it may happen, that one who, upon the whole, is creditor to the world, may be debtor to a place which is also creditor to the world; and in this case bullion is necessary to pay the debt.

If a man owe money to a person who has many creditors, the
person owing, may buy up a claim against him, and pay what he owes in that way: but if the person to whom he owes the money be indebted to nobody, then the debt must be paid with ready money. Just so of nations. For instance, when bullion is demanded to be exported to Holland, the English merchants, who are creditors on Spain and Portugal, take from thence their returns in bullion, for the sake of paying the balance to Holland, which is, upon the whole, creditor to the world.

But as it seldom happens, that he who deals with Holland is the person who has credit in Spain or Portugal, he is obliged to apply to Portugal merchants in order to procure bullion. They again who trade thither, having profit on the returns of the commodities they bring from thence, will expect the same profits upon the bills they give to the man who wants to take his return in bullion. This plainly raises the price of bullion in the English market; because it is brought home in consequence of a demand from England. On the other hand, when the demands of England for Portuguese commodities is less than the value of what Portugal owes her, the Portugal merchants in London are obliged to take the balance in the metals. These come to the London market, and are offered to sale to those who want them: then the price of bullion falls; because the demand comes from the other side.

To go through all the operations which merchants employ to abbreviate the process I have been describing, would, indeed, better explain the practical part of exchange, than what I have said; but I write not to instruct merchants, but to extract from their complicated operations, the principles upon which they are founded.

Chap. IV

How the Price of Exchange, in a prosperous trading Nation, may be prevented from operating upon the whole Mass of reciprocal Payments, instead of affecting the Balance only

We have taken for granted, that the price of exchange is a hurt to trade in general.

In this chapter, we shall inquire more particularly than we have done, in what this hurt consists. The point of view of every man, whether he be a merchant or not, is first honestly, and as far as law and fair dealing do permit, to consult his own private interest; and in the second place, to promote that interest with which his own is most closely connected.

According to this rule, every merchant will endeavour to manage his exchange business to the best advantage to himself. If the balance be against his country, he will sell his bills on the country creditor as dear as he can; that is, he will endeavour to raise the price of exchange as high as he can against his country, whatever hurt may thereby result to the general trade of it; and in so doing, he does only what duty to himself requires; because it is by minding his business only, that he can trade upon equal terms with his neighbours, every one of whom will avail themselves of the like fluctuations, when they happen to be in their favour.

From this I conclude, that since the loss upon high exchange against a country, affects principally the cumulative interest of the whole, relatively to other trading nations; it is the business of the statesman, not of the merchants, to provide a remedy against it.

The whole class of merchants, no doubt, exchangers excepted,
would be very glad to find the course of exchange constantly at
par. This is also greatly the interest of the state because it is
from the balance in its favour, not from the profit made in
drawing that balance from the debtor, that the state is a gainer.
This must be explained.

I am to shew how it happens, that a nation is benefited or
hurt by the net balance only, which it receives from, or pays to
her neighbours: and that the whole expence of paying or receiving
this balance, is not national, but particular to individuals at
home. consequently, it would be the interest of all states, that
balances both favourable and unfavourable, were paid by the
nation-debtor, at the least expence possible.

The great difficulty in communicating one's thoughts upon
this subject with distinctness, proceeds from the ambiguity of
the terms necessary to express them. This may be avoided by
adopting the technical terms of merchants; but these are still
more difficult to be comprehended by any one who is not
conversant in commerce. I shall acquit myself of this difficult
task the best way I can.

When we speak of a balance between two nations, we shall call
the nation who owes the balance the nation-debtor; the other to
whom it is owing, the nation-creditor.

Balances imply reciprocal debts; consequently, reciprocal
debtors and creditors. To avoid, therefore, confusion in this
particular, we shall use four expressions, viz. the debtors to
the nation-creditor; the debtors to the nation-debtor; the
creditors of the nation-creditor; the creditors of the
nation-debtor.

Let me suppose that Paris owes a balance to London, no matter
for what sum. The reciprocal debts between Paris and London are
all affected by the consequence of this balance: that is to say,
some pay or receive more than the real par; some pay or receive
less. To discover where the profit centers, we are now to inquire
who are those who receive more, who are those who receive less.
And as profit and loss are here only relative, that is to say,
the profit of the one is compensated by the loss of the other; we
must see whether upon the whole, the price of the exchange in
this case be favourable to England, to which, by the supposition,
the balance is due, and unfavourable to France, which is the
debtor.

The question thus stated, let us examine the operations of
exchange at London and Paris, and the state of demand in both,
for money or bills.

In the London market the demand will be for money in London
for bills on Paris; and he who demands, must pay the exchange;
consequently, the London merchants, creditors of the
nation-debtor, will pay the exchange; that is to say they will
sell their bills on Paris below par; and the London merchants,
debtors to the nation-debtor, will buy them, and gain the
exchange; that is, they will buy bills upon Paris below par.

Now as this negotiation is carried on at London, I must
suppose it to take place amongst Englishmen; one part of whom
will gain exactly what the other loses; consequently England, in
this respect, neither gains or loses by the exchange paid in
London.

Let us next examine the interest of the merchants, and the
interest of the nation's trade.

The creditors of the nation-debtor, who have lost by the
exchange, are those who have exported English commodities to
France. Upon this profitable branch of commerce the exchange
occasions a loss, the consequence of which is, to discourage
exportation.

The debtors to the nation-debtor, who have gained by the exchange, are those who have imported French commodities to England. Upon this hurtful branch of commerce, the exchange occasions a profit; the consequence of which is, to encourage importation.

This is not all. The English merchants exporters, who have lost, cannot draw back their loss upon the return of their trade; because the return of their trade is the money due by France, the balance included. Whereas the English merchants importers may draw back their loss upon the return of their trade; because that return is merchandize, which they can sell so much the dearer to their own countrymen.

If the balance be in favour of London, importers gain, as we have seen; when it is otherwise, and when they are obliged to pay the exchange, they indemnify themselves, by the sale of their goods so much the dearer. High exchange, therefore, may hurt exporters, but never can hurt importers.

Let us next examine the operation of exchange at Paris.

In the Paris market, the demand will be for bills upon London for money in Paris; and he who demands must pay the exchange. The debtors, therefore, to the nation-creditor, must pay the exchange, and the creditors of the nation-creditor will receive it; and as both are Frenchmen, the profit and loss to Paris exactly balance one another.

But the debtors of the nation-creditor are here the importers of English goods; consequently, this trade, hurtful to France, would be hurtful to the importer, could he not indemnify himself by selling them so much the dearer to his countrymen.

The creditors, again, of the nation-creditor, who gain the exchange, are the exporters of French goods to England; so that here the exportation meets with an encouragement from a balance against the country.

From the advantage found upon exchange in favour of exporters, and the loss upon it to the prejudice of importers, in the case of a wrong balance, it has been believed, that a wrong balance produced, upon importations and exportations, effects equal and contrary, which destroy one another, and thereby bring the balance even.

In answer to this, I have two short arguments to offer.

The first is, that were the argument conclusive, it would hold good in reversing the proposition; to wit, that the consequence of a favourable balance would be to destroy the difference also, and bring the balance even. This I never heard alleged.

My second argument is the stronger: that the enhancing of the prices of importations will not so effectually discourage the sale of them at home, as the enhancing the prices of exportations will discourage the sale of them abroad; for the reasons I shall give presently. But in the mean time,

If the compensation be considered in relation only to the merchants importers and exporters, there, indeed, I agree, that their profit and loss upon the exchange is most exactly balanced; because what the one party gains the other loses; and the country loses the balance only, as has been said.

The reciprocal debts thus transacted by bills of exchange, we see that no profit can be made, nor loss incurred, either to London, or Paris, by this operation.

The profit to Frenchmen is compensated by the loss to Frenchmen; the same may be said of the English merchants: but the balance due after these operations are over, and the more remote
consequences of high exchange, affect the relative interest of the two nations.

This balance is generally sent by the country-debtor, either to the country-creditor, or to their order in a third country, to which the country-creditor is indebted.

The transportation and insurance of this balance is an expense to those who owe it, and the profit, if any there be on this operation, naturally belongs to the exchangers of the same nation, who conduct it. So whether exchange be paid upon bills drawn, or expense be incurred in the sending away the balances, no profit can accrue upon this to the nation-creditor, to the detriment of the debtor: it must, therefore, do hurt to both, relatively to nations where, upon the average of trade, exchange is lower.

I come now to the method of transporting balances in the metals.

We have seen how the creditors of the nation-debtor pay exchange upon the sale of their bills on Paris, which owes the balance. If by the operations of exchangers, this exchange should rise, to their detriment, higher than the expense, trouble, and insurance, upon bringing this balance from Paris, then they will appoint some factor at Paris, to whose order they will draw bills upon their debtors in that city; and as what the Paris-debtors owe to London is stated in pounds sterling, the London-creditors will value the pound sterling, according to the rate of exchange, in their favour; and in their bills upon their Paris-debtor, they will convert the sum into livres, including the exchange.

By this operation, we see how the transportation of the balance may become the business of the creditors of the nation-debtor: which is a circumstance we have not as yet attended to: a few words will explain it.

When the creditors of the nation-debtor sell their bills, they must pay the exchange, as has been said. When they draw bills to the order of a friend in the place where the balance is owing, they superadd the exchange. This their debtors pay: but then they themselves must be at the trouble and expense of bringing home the money.

It is from this alternative which both parties have of either sending what they owe to their creditors in bullion, or of allowing them to draw for it at the additional expense of paying the exchange, that a check is put to the extravagant profit of exchangers: and from this circumstance arise all the delicate operations of drawing and remitting.

Into these we shall not inquire: the principle on which they depend appears sufficiently plain, and this is the principal object of our attention.

I proceed now to consider how far those reciprocal profits and losses, between merchants in the same country, affect the trade of it in general.

When the balance is favourable, we have said that the exporters lose the exchange, and the importers gain it; and both being citizens, the country would not be concerned in their relative interests, were it not that these interests are connected with that of the country, which reaps great benefit from the trade of those who deal in exportations, and loss from the other.

If, therefore, exchange be found to hurt exportation, when the balance is favourable, in this respect the country has an interest in bringing it as low as possible. But as it may be said, that since the return of an unfavourable balance hurts in its turn the interests of importation, and favours that of
exportation, exchange thereby operates a national compensation: I must, in this place, add one rejection more, in order to destroy the strength of this argument.

Were this proposition admitted, as I am sure it cannot, from what we have already said, it would afford no argument against doing what can be done, to render exchange as little hurtful as possible to exportation, during the favourable balance. But next as to the question itself of national compensation, I cannot allow that even exporters and importers are thereby brought on a level in point of trade: for this reason, that since it is allowed, that when the balance of trade is favourable, the price of exchange is a loss to the merchants exporters; this exchange in proportion as it augments, must discourage manufacturers, who must have regular, and even growing profits, according to the increase of demand. These the merchant exporter cannot afford; because he cannot draw back from his foreign correspondents, any advance upon manufactures at home, arising from domestic circumstances. But when upon an unfavourable balance, the merchant importer is affected by the exchange against him; this additional expense he can draw back, because he sells to those who are affected by all domestic circumstances.

Let us therefore determine, that it is the interest of a state to disregard this compensation which is said to be given to exportation during a wrong balance, which does so much harm; and to avoid the discouragement given to it by a right balance, which does so much good. The only way to compass these ends, is to keep exchange as near to par as possible.

Could reciprocal debts be always exchanged at par, and could the expence of bringing home, and sending a balance abroad, be defrayed by the state, I think it would prove a great advantage to the trade of a nation. I do not pretend to say that, as matters stand, the thing is practicable; but as this is a question which relates to my subject, and seems both curious and interesting, I shall here examine it.

At first sight, this idea will appear chimerical; and some readers may despise it too much, to be at the trouble to read what may be said for it. I shall therefore set out by informing them that the scheme has been tried, in a great kingdom in Europe, under a great minister: I say it was attempted in France, in the year 1726, under the administration of Cardinal Fleuri, and produced its effect; although it was soon given up, for a circumstance which, I think, never can occur in Great Britain.

After the last general coinage in France, 1726, exchange became so unfavourable to that kingdom, as to occasion a general outcry. The Cardinal, to put a stop to the clamour, and to set exchange to rights, as he thought, ordered Samuel Bernard, at that time a man of great credit, to give bills on Holland at par, to all the merchants; and in order to enable him to place funds in Amsterdam, for the payment of his bills, the Cardinal supplied this exchanger with sufficient quantities of the old coin, then cried down, and paid for the exportation of it to Holland.

Upon this, exchange on Holland came to par; and the exchangers at Paris looked on the operation with amazement. The minister, however, in a short time discovered, that by this he was undoing with one hand, what he wanted to establish with the other. He therefore stopped in his career, after having paid, perhaps, ten times the balance due to Holland.

By unfolding the combination of this operation, I shall be better able to cast light on the question before us, than in any other way.

When the general coinage was made in France, by the arret of
the month of January 1726, all the old coin was cried down, and
ordered to be recoined. The mint price of fine gold per marc was
fixed at 536 livres 14 sols 6 deniers; that of the silver at 37
livres 1 sol 9 deniers. These were the prices at which the mint
paid for bullion, when offered to be coined. But the King, as if
he had a right upon the metal in the old coin, commanded it to be
delivered at the mint at no higher rate than 492 livres for the
marc of fine gold, and at 34 livres for the marc of fine silver:
and to compel the possessors of it to bring it in, all
exportation and melting down was made highly penal; the avenues
from France were beset with guards to prevent the going out; and
the melting pots were strictly watched. Upon this, the possessors
of the old coin, rather than sell it to the mint at so great an
undervalue, had recourse to exchangers for bills upon Holland for
it: and these being obliged to send it thither at a great expence
and risk, exacted a very high exchange, which, consequently,
affected the whole trade of France.

Politicians persuaded the Cardinal, that exchange had got up
so high, not from the discredit cast on the old coin, but because
of the wrong balance of trade, and of the alteration which had
been made at that time upon the denomination of the new coin: and
that as soon as the balance against France was paid, exchange
would return to par. Upon this the Cardinal set Bernard to work,
but he soon discovered his mistake; and by arret of the 15th of
June the same year, raised the mint price of the old coin, and
then exchange became favourable.

These are all facts mentioned by Dutot, and yet he never will
ascribe the rise of exchange in France to any other cause than to
the tampering with the denominations of their coin: an operation
which may rob one set of people in favour of another; but which
has very little effect upon exchange, when other circumstances do
not concur, as in the case before us.

Now had the high exchange against France been owing to a
wrong balance upon her trade, is it not evident that the
Cardinal's operation would have succeeded, that all demands for
bills at Samuel Bernard's office would have been confined to the
exact extent of this balance; that the reciprocal debts would
have been negociated between the merchants at par; and,
consequently, that all expence upon exchange would have been
saved to individuals, at the small charge to government of
transporting the balance paid by the merchants at Paris, for
Samuel Bernard's bills?

Were prosperous trading states, therefore conducted by
statesmen, intelligent, capable, and uninfluenced by motives of
private interest, they would make it a rule to be at the expence
of sending off, and bringing home all balances, without any
charge for exchange to the traders; but the consequence of either
neglect, or incapacity in the person at the helm, would then make
it too dangerous to attempt, at once, so great a change in the
present method of paying balances: but I never make allowances
for such defects in ministers, while I am deducing the principles
which ought to direct the conduct of a statesman.

I shall next slightly point out the bad consequences which,
upon an unfavourable state of commerce, might result from such a
plan: and without recommending any thing to practice, leave the
reader to judge of the expediency.

We see, that by a statesman's giving bills at par, on all
occasions, and being himself at the expence of transportation and
insurance, in bringing home and sending off all balances,
exchange would of itself come to par.

The first consequence of this would be, the total
annihilation of the exchange business; and if, after this, any interruption should happen by neglect in the statesman, trade might suffer considerably.

Another consequence is, that the most destructive trade would go forward without a check, as long as merchants could pay the par of the bills they demanded upon foreign parts: and this they would constantly be enabled to do, while there was neither coin or paper in circulation, as has been explained in treating banks of circulation upon mortgage.

The consequence of this again would be, to oblige the state to pledge the revenue of the country to strangers, in proportion to the balance owing, over and above the extent of the metals to discharge it.

Now the question is, and this I shall leave to the sagacity of my reader to determine, whether, as matters stand, there be any check proceeding from high exchange which can prevent the bad consequences here set forth. I suspect there is none. We see the most enormous sums lent by nations to nations; raising the exchange against the lenders; turning it in favour of the borrowers, but never preventing the loan from going forward. Does not Great Britain, as well as France, owe amazing sums to other nations, at the expense of paying the interest out of their revenue? And have not all these sums been transacted by exchangers, who have made great fortunes by the operation? Are not the most unfavourable balances paid in the ordinary method? Are there not, already, instruments in the hands of all nations, sufficient for their undoing? How then can their ruin be accelerated by this alteration in the mode only of performing the same thing?

But let it be observed, that our business, in this chapter, is to search for methods to advance the prosperity of flourishing nations, who have a balance owing to them; and here we have been setting forth the bad consequences which result from them, to others who are in decay. Every argument, therefore, drawn against this scheme, in favour of the idle or prodigal, is an argument in favour of it, with respect to the industrious and frugal. As all nations are liable to alternate vicissitudes of prosperity and adversity, the principles here laid down, require to be carefully combined with domestic circumstances, before they be applied to practice.

It was with a view to this distinction, that, in the title of this chapter, I pointed out the question there proposed, as being relative to the state of it in a prosperous trading nation; and I am not quite clear how far it might not be advantageous in every case: but this question I shall not here enlarge upon. What has been said, will, I hope, be sufficient to point out the principles upon which the decision depends; and if any statesman incline to try the consequences of it now and then, by an experiment, nothing is so easy as to do it, without any detriment. This is proved from the operation performed by the French cardinal, on the occasion of a very unfavourable and high exchange.

Chap. V

How, when other Expedients prove ineffectual for the discharging of Balances, the same may be paid by the Means of Credit, without the Intervention of Coin or Bullion; and who are those who ought to conduct that Operation

We have now applied the principles formerly laid down,
towards discovering the most proper expedients for removing or palliating the three inconveniences to be struggled with in regulating exchange. First, How to estimate the value of a balance due: Secondly, How to pay it with the coin or bullion of the country: and lastly, How to prevent the price of exchange from affecting any thing more than the balance to be paid, after all reciprocal debts have been compensated.

It remains to inquire, what are the most proper methods to acquit what a nation may owe, after it has done all it can to pay the value of their balance in the other way.

At first sight, it must appear evident that the only method here is to give security, and pay interest for what cannot be paid in any other value. This in the end is constantly what is done by every nation; but as the ordinary methods of bringing it about, are very perplexed, and are attended with expences which raise exchange to a great height, and thereby prove a prodigious discouragement to trade in general: it would be no small advantage, could all this loss on exchange be thrown equally upon every class within the state, instead of being thrown entirely upon its commerce.

As this is the expedient to be proposed, it will not be amiss to observe, that foreign balances arise chiefly upon four articles. First, The great importation and consumption of foreign productions. Secondly, The payment of debts and interest due to foreigners. Thirdly, The lending money to other nations. And, Fourthly, The great expence of the state, or of individuals, abroad.

Could all the bad consequences arising from these four causes, and the high exchange occasioned by them, be cast upon that interest alone which occasions them, I should not propose to lay the whole body of the nation under contribution for repairing the loss.

But if from the nature of the thing, as matters stand, the whole be found to fall upon trade, without a possibility of preventing it; in this case, I think it would be better for the nation, in cumulo, to lend its assistance, and to share the burden, than to allow it to fall upon that part of the body politic from which the whole draws its vigour and prosperity.

It cannot be denied, that when a heavy balance is due by a nation, it has the effect of raising exchange upon every draught or remittance. When bills are demanded to pay a foreign claim, it cannot be determined from which of the four articles, just now mentioned, the claim has arisen. Whether for national purposes or not, the exchange is the same, and equally affects the whole interest of trade.

If this be a fair state of the case, I think we may determine that such balances ought to be paid by the assistance and intervention of a statesman's administration.

The object is not so great as at first sight, it may appear. We do not propose that the value of this balance should be advanced by the state: by no means. They who owe the balance must then, as at present, find a value for the bills they demand.

Neither would I propose such a plan for any nation who had, upon the average of their trade, a balance against them; but if, on the whole, the balance be favourable, I would not, for the sake of saving a little trouble and expence, suffer the alternate vibrations of exchange to disturb the uniformity of profits, which uniformity tends so much to encourage every branch of commerce.

We have abundantly explained the fatal effect of a wrong balance to banks which circulate paper; and we have shewn how
necessary it is that they should perform what we here recommend, to be done by the state itself. There is therefore nothing new in this proposal: it is merely carrying the consequences of the same principle one step farther, and making it a branch of policy, for government to be assisting to trade in the payment of balances, where credit abroad is required; and we have proposed that this assistance should be given out of the public money.

The greatest, and indeed, I think, the only objection to this scheme, is, that by it the condition of our foreign creditors, will be bettered, for no value received from them. This I allow will be the case when the balance is against England: but it will be compensated to the creditors by the loss they will sustain when the balance is in her favour. But supposing there should be a benefit to foreign creditors, will not this circumstance raise the confidence of all the world in the English funds? If, upon a proposal to government to lower the rate of money by refunding the debts which bear a higher interest than what money can be procured for, the continent should pour her wealth into our subscription, might we not then more readily expect a supply from that quarter? Besides, is not all the interest due to foreign creditors paid in bank paper? Is not this demandable in coin, and will not this coin be exported, if credit be not found? Were the bank of England to keep a subscription open, at all times, in Amsterdam, for money to be borrowed there, on the payment of the interest in that city, who doubts but loans might be procured at much less expense than at present, when we are beating about for credit every where, until by the return of a favourable balance upon the trade of England, she shall be enabled to fill up the void.

I feel my own insufficiency to unfold the many intricacies which such an operation must imply. I therefore shall not attempt what, at any rate, I must leave imperfect. What has been said, together with what has been thrown out on the same subject, in treating of other matters, is sufficient to give a hint, concerning the expediency of the plan in general. And as to the objection which arises from the payments to the public creditors abroad, I shall reserve the more ample discussion of it till I come to consider the doctrine of public credit.

Part IV

Of Public Credit

Chap. I

The principles which influence the doctrine of public credit are so few, and so plain, that it is surprising to see how circumstances should possibly involve them in the obscurity into which we find them plunged on many occasions.

For the better clearing the way towards the main object, I shall shew from experience, and from the progress of public credit in some nations, that the true principles have been overlooked, and so confounded with extraneous objects, as to be entirely lost.

The true method of decyphering, as it were, the complicated operations of statesmen with respect to this branch of politics, is to bring back to their native simplicity such plans of administration, as, from the infinite perplexity of them, make people believe, that the principles which influence this district of the science lie so involved, as to require a peculiar force of genius even to comprehend them.
By proceeding in this plain track, and by keeping principles constantly in view, the most perplexed systems of borrowing, funding, stock-jobbing, coining and re-coining of money, changing the weight, fineness, and denominations of specie, circulating paper in conjunction with it, imposing upon mankind with bubbles and bankruptcies, and calling them operations of public credit, may be rendered intelligible to the most slender capacity.

Many of these topics have been already explained, and dismissed. This will enable us to contract the plan of what remains in proportion to the objects it is to comprehend.

Public credit we have defined to be, the confidence reposed in a state, or body politic, borrowing money, on condition that the capital shall not be demandable, but that a certain proportional part of the sum shall be annually paid, either in lieu of interest, or in extinction of part of the capital; for the security of which payment, a permanent annual fund is appropriated, with a liberty, however, to the state to free itself, by repaying the whole, when nothing to the contrary is stipulated.

In this definition I have put in an alternative, of paying a perpetual interest for the money borrowed, or of paying annually a sum exceeding the interest; which excess is intended to extinguish the capital in a certain number of years. In both cases, the annual payment is called an annuity. When it is exactly equal to the interest agreed on, it is called perpetual; and determinate, when it is granted either for life, or for a certain number of years.

The solidity of this security is essential to the borrowing upon the cheapest terms: let me suppose it to be as solid as land-property, and as permanent as government itself: what will the consequence be?

If we suppose government to go on increasing, every year, the sum of their debts upon perpetual annuities, and appropriating, in proportion, every branch of revenue for the payment of them; the consequence will be, in the first place, to transfer, in favour of the creditors, the whole income of the state, of which government will retain the administration. The farther consequences of this revolution will furnish matter for a chapter by itself.

If the borrowings of a state be in proportion only to the extinction of the old capitals, or of what I have called determinate annuities, then the debts will not increase.

If, all the interests of the state duly considered, that of trade be found to predominate; less inconvenience will be found in allowing the moneyed interest to swell: but in monarchies, where the landed interest is commonly, and ought to be the most powerful, it would be dangerous to erect so formidable a rival to it. In political bodies every separate interest will consult its own; and in the contest between those who will be made to pay, and those who are to receive the taxes, under the denomination of creditors, the security of public credit will become precarious.

From this we may conclude, First, That in governments where the swelling of a moneyed interest is found to threaten the tranquillity of the state, care should be taken either to
establish a sinking fund, for paying off, in times of peace, what may have been borrowed in times of war, or the plan of borrowing upon determinate annuities must be established.

Secondly, If natural cares be left to work their own effects, without a systematical plan of borrowing, the consequence will be a bankruptcy and a total failure of public credit, at least for some time.

Thirdly, If a state should find the mass of their debts to amount to so great a sum as to be insupportable, they might have recourse to a total, or partial abolition of them by an act of power.

Fourthly, If they allow their debts to swell without limitation, and adhere to the faith of their engagements, the whole property of the state will be in constant circulation, from one class of men to another.

Fifthly, If the debts contracted be the property of foreigners, these will either remove into the country, where their funds arise, or the property, that is, the dominium utile of the country, will be transferred from the natives.

These and many other combinations will arise from the extension of public credit; and an examination into the most natural consequences upon every supposition, will be the best way to acquire a distinct idea of the subject in general. To pretend to foretell any one certain chain of consequences, which may, in fact, result from any particular case, is, I apprehend, impossible; because every one of them will depend upon circumstances totally unknown. These consequences, in our way of examining matters of this kind, are all to be founded upon supposition. To supply therefore, in some measure, this defect, I shall first have recourse to examples of what has happened in the hitherto infant state of public credit; and as to cases which have not as yet taken place, we must have recourse to ingenuity, and endeavour to form the most rational combinations we can.

Chap. II

Of the rise and Progress of Public Credit

While the policy of States directed them to form treasures, there was no occasion for public credit. This policy prevailed until the rise of the Roman empire. Then all the treasures of the world were plundered, and the nations were inslaved. On this revolution, the exigencies of that great empire were supplied from the annual tributes paid by conquered nations. Under good reigns, this annual supply swelled the public treasure, until a prodigal Emperor squandered it away; and took to rapine and extortion, to fill up the void.

Upon the total dissolution of the Roman empire, Europe was overrun by barbarous nations, who, with as little industry as ever, supported their power by the military services of the whole people.

After the establishment of the feudal kingdoms under the chiefs who first laid the foundation of them, arose the Barons, or principal vassals, who, in imitation of their chief, erected small principalities, which by degrees grew independent.

This distribution of power into many hands had the effect of destroying all systematic plans of government. Princes were obliged to act according to the perpetual fluctuation of circumstances. until, by a revolution in their favour, the power of the vassals was swallowed up, and confined within the limits of a more regular authority.
In proportion as this revolution took place among the nations of Europe, the system of their government resumed a more permanent form. Justice was administered with more uniformity; and from this insensibly arose a body of laws, which, in some countries, were called customs: in others, as in England, common law. Wars then became less frequent; and the military services not being necessary on all occasions, insensibly became converted into taxes, proportioned to the exigencies of the time.

During this period, the coin and precious metals of Europe were in a great measure, lodged, in private coffers. If wars brought them forth for a short time, they soon found their way back again. Princes were generally poor; because they were generally extravagant, and spent money as fast as they got it. In proportion as industry and alienation increased, the coin came abroad; the inhabitants became easy in their circumstances; the state flourished, and acquired reputation. The riches and power of a state began then to be estimated, as they ought to be, not by their treasures locked up, but by what was found in circulation; that is, by their industry. Venice, Genoa, and the Hanstowns, set the example. The Jews, banished from France, on account of their extortions in the time of the holy wars, fled, as it is said, into Lombardy, and there invented the use of bills of exchange, for drawing their riches from those countries to which they durst not resort in order to bring them off. Interest for money began to be considered as lawful in many cases: merchants were protected by Princes, for the sake of the consequences of trade and industry: and from such small beginnings has this mighty engine of public credit sprung.

While Princes mortgaged their lands and principalities, in order to obtain a sum of money, they acted upon the principles of private credit. This was the case in the more early times, before government acquired that solidity which is necessary to establish a firm confidence. In proportion as it drew toward a regular system, the dawn of credit put on appearances analogous to the solidity of the fund upon which it was established.

The second step was to raise money upon a branch of taxes assigned to the lender, for the reimbursement of his capital and interest. We shall shew the consequences of this plan of credit from some examples, which will fully point out all its inconveniences.

This plan of administration was attended with so much abuse, and so much oppression, that statesmen began to despair of carrying on public affairs by such expedients; and therefore concluded that the only way to obtain money at the least expence, was to raise it on the subject within the year, or upon what they called short funds.

At length public credit assumed its present form. Money was borrowed upon determinate or perpetual annuities: a fund was provided for this purpose: and the refunding of the capital was, in many cases, left in the option of government, but never in the option of the creditor.

This is a short view of the progress of public credit. The principles upon which it is built are so few, that were I to confine myself to a bare deduction of them, little new or interesting could be said. I shall therefore steer another course: I shall collect the sentiments of some eminent politicians, who have either written upon, or acted in the administration of this branch of government; and by applying principles as we go along, I shall be enabled to point out the extraneous circumstances which are so apt to involve this subject in obscurity. Had we not before our eyes the numberless examples
of this kind, it would hardly be possible to conceive how so
great confusion, and so many calamities, could have followed upon
the operations of public credit.

Chap. III

Of Anticipations, or borrowing Money upon Assignments to Taxes
for the Discharge of Principal and Interest; and of the
Sentiments of Dr Davenant on this Subject

I have already observed, that by the cessation of the
constant wars, in which all Europe was engaged during the feudal
government of the barons, nations began to enjoy some sort of
tranquillity. Upon this the military services became insensibly
converted into taxes: and as Princes extended their jurisdictions
over the cities, which had been formerly more immediately under
the protection of the bishops who resided in them, taxes were
augmented. These impositions were very inconsiderable, with
respect to what they brought into the King's coffers. The policy
in raising them was bad; the frauds in collecting them were
great.

These considerations engaged Princes to begin by contracting
debts, with a view, afterwards to pay them by temporary
assignments to the taxes imposed.

From this again ensued the most terrible extortions on the
side of the tax-gatherers, so often complained of by those who
have written concerning the affairs of France, as we shall see in
the following chapter.

Philip le bel, King of France, was the first who, in 1301,
admitted, with great policy, the inhabitants of cities to have a
seat in the states of the kingdom. He formed them into a distinct
body, and called them tiers etat, or the third state, after the
clergy and the nobility. His view was to facilitate thereby the
jurisdiction he wanted to establish over those cities, and to
engage them to consent to the imposition of taxes for carrying on
his wars in Flanders, and for opposing the ambitious views of
Boniface VIII. Accordingly, the people began to pay willingly,
when once they found that they had a vote in what concerned them.

I take it for granted, that every tax, about that time, was
imposed for a particular purpose, and assigned either to
creditors, or to people who advanced money upon it: because we
are told that the first imposition granted by the states to a
King of France as a permanent branch of revenue, was an excise
upon spirituous liquors granted to Philip de Valois, in the year
1345; at which time, however, according to Mr d'Eon's Memoires
pour servir a l'Histoire generale des Finances, there were not
less than twenty two different taxes known in France, which he
enumerates as follows:

Tailles, complaintes, charges, redevances, coutumes, peages,
travers, passages, centiemes, cinquantiemes, őtes, chevauchées,
subventions, exactions, chevaleries, aides, mariages, toultes,
impositions, prisons, servitudes, and nouvellettes.

That all these impositions must have been mere trifles, I
gather from a circumstance in the Political History of France,
mentioned by the author just cited, which being itself
exceedingly curious and tending greatly to confirm many things
which I have advanced concerning the small circulation in former
times, I shall here briefly relate it.

In 1356, John, King of France, applied to the States for
50,000 livres, about 9165 l. sterling, to pay his army. The
States, besides several other taxes imposed to pay this sum,
granted him 8 deniers on the livre, or 3 1/3 per cent upon all meat, drink, and merchandise, sold in France within the year; that is to say, upon the whole alienations of France. The tax, was levied, but fell far short of the sum required, and the deficiency was made up by a poll-tax.

Can any example be better calculated for forming a notion of the circulation of France at that time?

It may be here alleged that the prices of every thing were then so very low, that no judgment can be formed concerning the quantity of alienation from the smallness of the sum. This objection is of no force, as I shall presently shew.

We know from the records of the selling price of grain in France, which was then remarkably cheap in proportion to the years which followed and which had preceded, that in 1356, the septier of wheat, or nearly 4 Winchester bushels, sold for 17 sols 8 deniers of the then currency, which was 12 livres to the marc fine silver, and a French soldier's allowance for bread to this day, is 3 septiers, or nearly 12 Winchester bushels a year. Now let me suppose, that the whole 50,000 livres had been raised by this imposition of 3 1/3 per cent or 1/30 of the total value of the single article of corn sold at market, which was far from being the case, and then compare this with the number of men who could have been subsisted with all the corn sold in France at that time.

If 1/30 of the price were the tax, then by multiplying 50,000 livres by 30, we have the value of the corn sold; to wit, 1,500,000 livres: divide this sum by the value of what a man consumes in a year, to wit, 3 septiers at 17 sols 8 deniers, which make 2 livres 13 sols, and the quotient will be the number of portions for a man, to wit, 566,037. Since, therefore, the 50,000 livres could not be raised in consequence of the tax, it follows, that the whole alienation of France, at that time, fell far below the value of as much wheat as would have fed 566,037 men.

What a poor idea does this communicate of the state of Europe so lately as 400 years ago! It would be in vain to seek for examples to illustrate any principle of our complicated modern economy in the histories of those times: their taxes, their credit, and their debts, resembled ours in nothing but the name.

I shall now come nearer home, and give an account of the ideas of public credit formed by Davenant, who flourished about the time of the revolution in 1688, which I may take to be the aera of public credit in England.

No person at that time, whose writings I have seen, appears to have so thoroughly understood these matters as Davenant. He was a man of theory, as well as knowledge of facts: he had an opportunity which, and he few people have, to be well instructed in the one and the other; turned his talents to the best advantage for promoting the interest of his country. He has written many tracts on political subjects, which, when carefully read and compared with what experience has since taught us, cast great light upon many questions relative to the subject of this inquiry.

Davenant, like other great men of his time, was of opinion that borrowing money upon what he calls short funds, was much preferable to that upon perpetual interest; and he thought the most adviseable plan of all, could it be accomplished, was to raise the money wanted within the year.

Men, at that time, had a terror upon them in contracting debts for the public: they considered the nation as they would a private man, whose interest is one, uncompounded, and relative to
himself alone: in this light, creditors appeared as formidable as 
enemies; they were looked upon by ministers as such; and this 
general opinion on one side, contributed, no doubt, to make the 
monied people less interested in the distress of government, and 
more ready to lay hold of every opportunity of improving such 
occasions, for their own advantage.

Government was in constant war with creditors: when ready 
money failed in England, it had nothing to pay with but exchequer 
tallies, upon the taxes imposed. these were much more easily 
issued than acquitted. When the first year's amount of a tax was 
engaged, people considered the security for what was to follow as 
very precarious; consequently, the value of it diminished.

This method, however, succeeded far better in paying off 
debts already contracted, than in contracting new ones; and the 
hardships put upon those who had already advanced money to 
government, and who were paid by assignments upon taxes 
previously engaged, made people very diffident afterwards, except 
upon proper security. The limited form of the English government, 
prevented the violent proceedings of ministers, with respect to 
the public creditors, which were common in France; and this 
circumstance contributed, no doubt, to establish the credit of 
the former upon the better footing. But still the long 
expectation of payment for the capital and interest, upon a 
distant fund, made Davenant acknowledge that 700,000 l. in ready 
money would at any time go farther than a million in tallies; and 
yet he thought it was better for the state to borrow the million 
upon a plan of discharging the debt in three or four years, than 
to obtain the 700,000 l. at the expence of a perpetual interest 
of 8 per cent.

There were many more considerations which moved Davenant to 
prefer what he calls short funds to perpetual interest.

It was the general opinion in his time (not his own indeed, 
for he endeavoured to shew the fallacy of it) that money borrowed 
upon the anticipation of a fund, raised and appropriated for the 
discharge of it, was not a debt upon the state; because it did 
not diminish the former revenue. We have a remarkable instance of 
the prevalence of this opinion, in the famous memorial presented 
by M. Desmaretz to Philip Duke of Orleans, after the death of the 
late King of France; wherein he advanced, that during seven 
campaigns, from 1708 to the peace of Rastad, while he had been at 
the head of the King's finances, he had not increased the public 
debts by more than nine millions of livres capital: and yet when 
he came into the administration, in 1708, the King's debts did 
not amount to 700 millions; and we have seen, that at the time of 
his death, they were upwards of 2000 millions. But Desmaretz did 
not reckon the difference, which was no less than 1300 millions 
as any debt at all; because he had settled it upon funds of his 
own creation. This was so much the language of the times, that no 
criticism was made upon it.

It is remarkable, that Davenant, in giving an account of the 
debts of England, during the period of which he writes, that is, 
from the revolution down to the peace of Ryswick, hardly ever 
takes notice of the sums paid for interest upon them. The minds 
of men at that time were totally taken up with the payment of 
capitals; and provided these could be discharged in a few years, 
it was no matter, they thought, what they cost in the mean time.

As long as nations at war observe the same policy in their 
methods of raising money, the ways in which they proceed are of 
the less importance: but when any one state makes an alteration, 
by which more money is thrown into their hands than they could 
formerly obtain; this circumstance obliges every other state to
adopt the same method. Thus while Princes made war with the amount of their treasures and annual income, the balance of their power depended on the balance of such resources: when they anticipated their income on both sides, for a few years, the balance was in proportion still: when, afterwards, they adopted long funds and perpetual interest, the supplies increased; but still the balance was determined as formerly.

The usefulness, therefore, of an inquiry into the principles of public credit, has not so much for its object to discover the interest of states in adopting one mode of credit preferably to another, as to discover the consequences of every one in particular; and to point out the methods for making them severally turn out to the best account not only for the state, considered as a body politic by itself, but also for the individuals which compose it.

When so many different relations are taken in, the subject becomes much more complex, and therefore the consequences which can be guessed only at must be less determinate: but on the other hand, it opens the mind, and suggests many hints which with time may be improved for the good of society.

People who barely relate political facts, afford only an excercise to the memory: those who deduce principles, and trace a chain of reasoning from them, give exercise to the understanding; and as a small spark may raise a mighty flame, so a hint thrown out by a slender genius may set all the great men of a nation on a plan of general reformation and improvement.

Let us now take a view of the state of public credit in England, at the peace of Ryswick; in order to shew how Davenant came to be so great an enemy to long funds, and more especially to perpetual interest. We shall at the same time point out from what causes proceeds the great change of sentiments at present.

At the peace of Ryswick, the debts of England, according to Davenant, in his fifth discourse upon the public revenues and trade of England, stood at 17,552,544 l. sterling; call it 17 millions and a half, as we have no occasion to calculate with exactness.

Of this debt the capital of 3 1/2 millions was sunk, as he calls it; because 1,300,000 l. was on lives at 14 per cent and what was over to make up the 3 1/2 millions, was intended to remain a perpetual burthen on the nation.

For paying the interest of this sum, no less than 400,000 l. a year was necessary, which makes on the whole above 11 per cent.

But then it must be observed, that more than one third of the sum was upon lives at 14 per cent: the debt due to the bank, of which we have spoken in another place, was 1,200,000 l. for which was paid 100,000 l. a year, including 4000 l. allowed for the charge of management: the remaining million was upon lottery tickets, bearing about 8 per cent the price at which the bank had lent.

The second branch of debts was near 11 millions, which, he says, were in course of payment; because they were secured upon branches of revenue engaged for discharging them. A part of this class of debts was to be extinguished in the year 1700: and whenever this was done, then a proportion of the appropriated taxes, amounting yearly to above a million sterling, was immediately to be taken off.

The third class of debts were those not provided for at all; which in the place referred to, he makes to amount to no more than 3,200,000 l. but he afterwards finds his mistake, and that they in fact amounted to above 5 millions and a half, which makes the debts of England at the peace of Ryswick, to have been near
20 millions.

Was it then any wonder, that a man who wished well to his country, should prefer borrowing upon short funds at any expence whatever in the mean time, rather than at perpetual interest, when he found that parliaments could not be prevailed upon to allow any tax to subsist one instant after the discharge of the debts for the payment of which it had been appropriated?

Besides, there was very little to be gained by borrowing upon long funds and perpetual interest, as long as the lenders considered their advantage to consist principally in getting their capitals refunded.

The plain matter of fact was, that trade at that time was only beginning to take root in England, and demanded funds to carry it on. The use of banks for turning property into money, had not then been discovered. Circulation, consequently, was confined to the coin; and profits on trade were very great. All these circumstances rendered capitals of essential use; and the consequence was, to raise interest to an excessive height.

Compare this situation with the present. Were the capital of 140 millions sterling thrown by Great Britain, in a few years, into the hands of the present creditors; were France, on the other hand, to throw in as much, what trade could absorb it? Capitals now are of value, in proportion only to the interest they bring; and so long as the interest paid on public debts is sufficient to keep circulation full, and no more, interest will stand as it is: when this ceases to be the case, as in time of war, we see interest begins to rise; and when, on the other hand, the interest paid, proves more than sufficient for the uses of circulation, as upon a return of peace, then, from the same principles, interest must diminish.

Davenant, like an able politician, who had the state of facts before him, reasoned according to actual circumstances. Whatever was borrowed on long funds, was charged on the standing revenue of the state, which parliament was very unwilling to increase in proportion to the charges laid upon it. This, of itself, was argument sufficient with him to cast his view upon short appropriations, or upon his favourite object, of raising money within the year, to supply the exigencies of the state.

But in this operation he found great difficulties. In his treatise of ways and means, article excises, where he is searching for expediencies to provide money for the war, he plainly shews a thorough knowledge of this imposition. It had taken place in England as far back as the great civil war, and formed at the revolution about 1/3 of all the revenue: but what is very extraordinary, and which at present will hardly be credited, the excise had at that time the effect of sinking the price of the subject excised, instead of raising the price of what was produced from it. Thus the excise upon malt, after the revolution, had the effect of lowering the price of barley, instead of raising the price of beer.

This effect of excises Davenant saw; from which he, and since him, many more have concluded, that all excises fall ultimately upon the land.

This circumstance, together with a feeling for the interest of the great number of idle poor at that time, who must constantly suffer by excises, engaged Davenant to propose having recourse to the land-property and poll-taxes, for raising, within the year, the sums required for carrying on the war.

According to his proposal, there was to be no less than 3 millions raised by a land tax, besides half a million by a quarterly poll, which made together, above 100,000 l. more than
all the permanent taxes of England put together.

A proposal of this kind coming from Davenant, shews the
difference of situation between those times and the present. On
this subject more is to be learned by comparing facts, than by
all the reasoning in the world.

We have seen how credit stood in England during the reign of
William III. It was then in its infancy, and was set upon the
principles of a free and limited authority, exercised by
ministers of state, at all times responsible to parliament at the
risk of their heads, in case of any open violation of the public
faith. This is the best of all securities against the bad
exercise of power.

Whoever reads the admirable writings of Davenant, and
compares his ideas with what experience has since taught us,
concerning the nature of taxes and public credit, will plainly
discover that the great distress of England at that time,
proceeded from the following causes.

The war they were engaged in, was far beyond their power to
support, although they had the greatest part of Europe to assist
them.

The bravery of the British nation was ill supported with
money, the sinews of war.

The coin soon after the revolution fell into the greatest
disorder, which sent it away; no expedient was found to supply
its place for the uses of domestic circulation; and,
consequently, the fixed revenue could not be paid, nor industry
carried on.

The people were unaccustomed to taxes, tunnage and poundage,
the branch with which they were best acquainted, and which they
bore with the least murmuring, because it was little felt by
individuals, together with the excise upon beer and ale, the
hearth money, the posthouse, and wine-licences, composed the
whole of the permanent revenue of the state, and amounted to
about one million and a half sterling: besides which, the
parliament had granted new customs (all to cease before 1690) to
the amount of about half a million more, upon wines, tobacco,
sugar, and French linen. This was the state of the revenue at
the revolution.

One would imagine that England, under so small a burthen,
might have been able to make the greatest efforts.

Were we now to grapple with France, under such circumstances,
what sanguine hopes should we not form of success! The case
turned out widely different: the first benefit the nation
expected in consequence of their liberty restored, was an
abolition of the hearth money; a tax which raised over the whole
kingdom, 245,000 l. This was considered as an insupportable
burthen.

Such sentiments and dispositions in the English nation, might
have been a sufficient indication of what was to be expected from
the war; the consequences of which had, before 1695, produced the
following changes in the revenue.

The tunnage and poundage, which at the revolution produced
600,000 l. was by this time reduced to 286,687 l.

The excise upon beer and ale, from 666,383 l. was reduced to
391,275 l.

The hearth money was abolished.

The post-house, from 65,000 l. was reduced to 63,517 l.

The wine-licences, from 10,000 l. to 5000 l.

The temporary customs which subsisted at the revolution, were
now expired, and had been either continued by new grants, or by
others of the same nature introduced in their stead. The former
had produced 415,472 l. the new produced 373,839 l.
The last and most important grant of all, was an additional
excise upon beer and ale, which produced 450,000 l.
The revenue at the revolution produced, clear of all charges,
2,001,855 l. sterling. A revenue established at pretty much the
same rate, and nearly on the same objects, with an addition of a
new excise, which produced 450,000 l. produced net in 1694, no
more than 1,570,318 l. so that, deducting the new excise, the old
revenue was diminished in its produce, no less than 1,081,527 l.
or above one half, in five years time.

In a country like England, at that time, taxes were of little
use to the state, and were an excessive burthen on the people.
What could they be paid out of? Not out of the value in the
hands of the people; because there was no way provided for
turning this value into money. The whole of the money coined
before the end of the war in 1697, did not amount to 8 1/2
millions. It was not to be expected that during the war, foreign
coin was to come in, except in consequence of borrowing; and we
may be very certain, that all that was borrowed, and a great part
of what had been coined at home, had gone out from the year 1695
to 1697. under these circumstances, the exchequer issued tallies
of wood, a notably expedient for facilitating circulation! And
the bank of England lent not one farthing upon mortgage. all that
was possible to be raised on the land and on the people, by
pound-rate, assessment, and poll-tax, was imposed.

Now let us recall our principles concerning circulation,
alienation, and banking upon mortgage, and combine these with
what we have so frequently repeated, and I think demonstrated,
viz. that in proportion to the extent of alienation, and the
demands for money, a circulating equivalent should be provided,
so as to be ready at the hand of every person who has property to
pledge for it; and then decide whether it was any wonder that
credit in England should have been at so low an ebb at the peace
of Ryswick; that taxes should have diminished in their produce;
that interest should have risen to such an extravagant height;
that the people should have groaned under a load from which they
could not relieve themselves.

Under such circumstances, England appears to me in the light
of a dumb man put to the torture in order to extort a confession.
Were eight or nine millions sterling in coin, and a few
wooden sticks, the tallies, constantly sold at a great discount,
a circulating value sufficient to supply the exigencies of a
state which was spending annually at the rate of five or six
millions?
The consequence of this total drain of money, was, that
people could neither consume exciseable commodities, or pay the
taxes laid upon their persons and solid property.
The excises failed, because the body of the people, who paid
them, were interrupted in their industry, for want of money to
carry on alienation. Those who were liable to the arbitrary
impositions, such as the landlords, could not pay; because what
they had, their land, could not be given in payment.

From what I have here laid together, we may determine, that
as alienations among individuals cannot exceed the proportion of
the circulating equivalent of a country, so a statesman when he
intends suddenly to augment the taxes of his people, without
interrupting their industry, which then becomes still more
necessary than ever, should augment the circulating equivalent in
proportion to the additional demand for it.
This, according to my notions, cannot be so well compassed
as, 1. by establishing banks of circulation upon mortgage: 2. by
relieving those companies of the load of paying foreign balances by giving bills at par, or at a small exchange: and 3. by providing funds abroad for the payment of them, according to the principles above deduced.

Such expedients will work their effect, in a nation where the public faith stands upon the solid security of an honest parliament, and upon that responsibility which is fixed upon those who are trusted with the exertions of the royal authority.

I think I may illustrate this operation by a simile.

A gentleman chooses to form a cascade of the water which serves to turn his corn-mill; consequently, the mill stops; but in its stead, he immediately erects another which turns with the wind. Coin is the water, bank paper is the wind, and both are equally well calculated for the use they are put to.

Chap. V

Of the Present State of Public Credit in Great Britain

We have, in a preceding chapter, given a general view of the state of public credit in England, at the end of the last century. In this, I shall briefly run through the most remarkable revolutions, both in sentiments and events, which have succeeded since that time.

At the revolution the revenue of England was about two million sterling, affected by two debts. The first was called the bankers debt, contracted by Charles II and, by letters patent, charged upon his hereditary excise, to the amount of upwards of 1,300,000 l. This debt was arbitrarily reduced to one half, in the last years of King William, and put at 6 per cent perpetual annuity, to commence no sooner than 1706. The other was a debt of 60,000 l. due to that Prince's servants, neglected to be paid by his successor, and discharged after the revolution.

At the peace of Ryswick, the national debt amounted to about 20 millions. The branches of taxes subsisting at the revolution, and continued till then, produced no more than about 800,000 l.; but by additional taxes laid on in the reign of King William, the whole revenue extended to 3,355,499 l. of which above one million was to cease before 1700, as has been said. This reduced the revenue, at the beginning of Queen Anne's reign, to nearly what it had been at the revolution: out of which if we deduct the interest of the national debt then subsisting, and the expence of the civil list, we shall discover the extent of the funds prepared for engaging in the war with France; and then by comparing the state of the nation at her accession, with what it was at her death, we shall form a general notion of the progress of credit at that period.

The revenue of England at the accession of Queen Anne may be stated at about 2,272,000

The debts subsisting on the 31st of December 1701, were 6,748,780

Upon which the annual interest was 566,165

Queen Anne's civil list - 600,000

Which two sums amounting to 1,166,165

Being deducted from the revenue, there will
What the exact amount of the revenue of England was at the death of the Queen, I cannot justly say. But as it may be comprehended under the three general branches of customs, excises, and other inland duties, we may form a guess at it, though imperfectly, I allow, from the number of articles in each.

At her accession, the customs comprehended fifteen articles; at her death, they amounted to thirty-seven: at her accession, the excises comprehended ten articles; at her death, they amounted to twenty-seven: at her accession, the other inland duties comprehended eight articles; at her death, they amounted to sixteen, including the land tax, then become in a manner perpetual, although laid on from year to year.

At her accession, the public debts amounted (as above) to near seven millions, at her death they exceeded fifty millions.

In fourteen years, from the revolution to her accession, the money granted by parliament, partly raised on the subject, and partly borrowed, or taken credit for, according to the custom of the times, amounted to above fifty-five millions. During the 13 years of Queen Anne, the money granted by parliament raised on the subject, or borrowed as above, amounted to upwards of 80 millions.

By this general sketch I do not mean to enter into exact details: facts must be sought for in books which treat of facts: our chief object is to examine the principles upon which the public credit was supported, let the exact sum of money raised be what it will.

The expences of the French war first engaged the nation to revive those taxes which had been suppressed; and to impose many others for a considerable number of years, in proportion to the money borrowed upon them, according to the principles of the former reign.

In 1702, interest was so low, that government got money at 5 per cent. It continued so till 1704, when some loans began to be made at 6 per cent and at this rate it stood during the war.

But in 1706, the exigencies of government were far greater than what all the money to be borrowed, or raised on the subject, could supply. This opened a door to the abuse of paying the growing deficiencies upon the taxes with exchequer bills, chargeable on distant funds. These fell constantly to great discount; and the unhappy servants of the state, who received them in payment, were obliged to dispose of them to people who could wait for an usurious reimbursement by parliament.

When these exchequer bills had once got into the hands of the monied people, they had interest with government to engage the bank to circulate them at 6 per cent interest: but as the funds upon which they were secured happened at that time, 1706, to be engaged for discharging debts previously contracted, the bank, during that interval, could receive no payment of this interest of 6 per cent so the expedient fallen upon, was to pay the bank compound interest for all the tallies and bills they were to discount, until the funds appropriated should be relieved.

This expedient, bad as it was, and burdensome to the state in the highest degree, proved of infinite service, both in establishing the credit of exchequer bills, and relieving those who received payment in them.

This operation was quite similar to those of banks of circulation upon mortgage. The bank of England was here employed in converting into money exchequer bills, secured upon the faith
of government. Banks upon mortgage convert into money the property of individuals upon private security. Had, therefore, banks upon mortgage been established in England at this time, all those who had property would have got credits from them, and would have been enabled thereby to pay their taxes, and carry on their industry, without diminishing their consumption. The exchequer would then have had no occasion to issue discredited bills and tallies for making up deficiencies; because taxes would have been productive, and the state would have been relieved of this excessive burden of interest at 6 per cent accumulated quarterly in favour of the bank.

What extraordinary profit must have accrued to the bank by this operation, every one must perceive. They were not here procuring funds to lend at a great expence; all they did was to augment the quantity of their paper upon government security; which they knew well would remain current in the common circle of payments within the country; and the public borrowings were sufficient to furnish credit for the sums sent out of the country. In this view we may conclude, that almost the whole accumulated interest paid, became a pure profit to the bank, as well as a great augmentation of the national debt.

This operation of the bank in 1706, did not prevent subsequent deficiencies, in the payment of the navy, army, ordnance, and of many other articles. In 1710, they amounted to above nine millions sterling. This was too great a sum to be borrowed; and the bank durst not venture to discount more than what domestic circulation could support: so that after this great debt had circulated upon the discredited obligations which had been issued for it, and in this way had fallen again into the hands of monied people, at 30 and 40 per cent below par, the new proprietors of it were all incorporated into one great company, with a governor and directors, who got 6 per cent for the whole capital, with an allowance of 8000 l. a year for charges of management.

Thus all the original creditors for these deficiencies lost the discount; the monied people gained it, and the public paid for all.

When credit is in this languid state, every expence of government must rise in proportion to the discredit of the paper with which they pay, till at last the whole sum, with interest, accumulation, and expence, falls upon the state, as if every farthing of it had been frugally expended in ready money.

This is a general view of the state of credit in Queen Anne's reign.

Government had not, as in the former war, the inconveniences flowing from the disorder in the coin to combat with. These contributed more than any other circumstance, to raise the capital of the debts at the peace of Ryswick. Circulation, too, was considerably augmented, in consequence of the increase of taxes, public debts, and the operation of the bank in circulating exchequer bills and tallies. Yet money was still scarce, in comparison of what it might have been, had proper methods been contrived to preserve it upon a level with the occasions for it.

The incorporation, also, of nine millions capital in the hands of a corporation, which afterwards was called the South Sea Company, was an assistance to public credit, by increasing a monied interest, the principal view of which was to fill the government loans, on the lucrative conditions offered for them. And last of all, the strictly adhering to the public faith of engagements, without seeking, by acts of power, to indemnify the state for the losses it had been obliged to incur, from the
circumstances of the times, laid the solid basis of national credit for the future.

Although the many taxes added to the former revenue, did not increase it in any proportion to the load laid upon the subject during this war, they served, however, as a good foundation for improvement, as soon as the effects of peace restored them to their full production. But the securities affecting these taxes having become every year greater, government was obliged to engage certain funds for thirty-two years to come, and sometimes longer; and many branches of taxes, which formerly had been granted for short terms, were then made perpetual. After the peace of Utrecht, the expences of the state were greatly diminished, and money began to regorge: so that in the year 1716, the first foundation of the sinking fund was laid, by opening a subscription for paying off about ten or eleven millions sterling, at that time, charged upon several branches of taxes, the produce of which amounted annually to 724,849 l. sterling.

The proprietors of these debts were allowed to subscribe into this new fund, at an interest of 5 per cent redeemable by parliament: and in case the whole subscription should not fill at that rate, the bank and South Sea company became bound to make it up, upon receiving a like annuity in proportion to their subscriptions.

The bankers' debt, of which we have spoken, the only public debt owing at the revolution, made part of those which were to be subscribed for.

The taxes which had been appropriated for the discharge of those capitals, from temporary, were made perpetual; with a clause added, that when the surplus of the fund, after payment of the interest, had discharged the capitals of all the national debt due the 25th of December in that year, the whole produce of the fund itself should remain at the disposal of parliament.

After this first operation in reducing the interest, the bank complied with a reduction to 5 per cent of what was due to them; and they began to circulate exchequer bills at a more moderate interest than formerly.

Public credit was now daily gaining ground. In 1719, the South Sea company, the capital of which was then swelled to eleven millions at 5 per cent with a sum of 9397 l. sterling for the expence of management, enlarged their views; and finding large profits to arise from so great a fund under one administration, formed a project of acquiring a farther sum of the public debts, which remained outstanding upon the original funds appropriated for them.

For this purpose they proposed to government to acquire, first, The property of above 16 millions of redeemable debts, bearing then 4 and 5 per cent interest; and to reduce the whole to 4 per cent at midsummer 1727. Secondly, To acquire the property of 794,000 l. of annuities upon lives, and for long terms, as they should agree with the proprietors, at 5 per cent upon the purchase-money, until 1727. and at 4 per cent afterwards. Annuities were then valued at fourteen and twenty years purchase, according to their length: they rose, however, during the operations of the South Sea, to 25 and 30 years purchase. Thirdly, They were to have a sum added to their former allowance for the charge of management, in proportion to this augmentation of their stock. Fourthly, That for the advantage which might follow upon this agreement with government, the company was to pay into the exchequer above seven millions sterling, toward discharging other national debts outstanding. And in the last place, they engaged to circulate a considerable
From the operations we have been describing, we perceive, that the point of view in England, from the peace of Utrecht, has always been, to reduce the interest of the national debt; but never to leave in the hands of the creditors, any part of the savings made, in order to diminish the capital. These savings have constantly been thrown into a sinking fund supposed to be intended for extinguishing the capital: and were it employed for this purpose for a few years only, and not diverted to other uses, I am persuaded the consequence would be, to reduce the interest of money in England lower than ever perhaps it has been seen in any nation. That interest may be reduced, by making money regorge in the hands of the lenders, is, I think, an uncontroverted principle: that by regorging in France, anno 1720, it reduced interest to 2 per cent is a fact indisputable. I shall not pretend to say positively, that the total appropriation of the sinking fund, and an augmentation upon annual grants, to make up the void, would in Great Britain work this effect in a few years; but I think it is very probable that it would: and if the domestic creditors, in any state, where debts, due to strangers, are swelled to such a height as to exceed the whole profits made upon trade, shall by their influence, and from a motive of present advantage, obstruct a scheme of this nature; the consequence will prove, in the first place, to discourage, and then totally to extinguish commerce, and in a little time to occasion an unavoidable bankruptcy; as shall be farther explained in a succeeding chapter. I return to the South Sea company.

The proposal of the South Sea company, mentioned above, was accepted of, and ratified by act of parliament, 6 Geo. I. chap. 4th. But the disaster which befel credit, in consequence of the ambitious views of those who were in the administration of that company, prevented the nation from reaping all the advantages which might have proceeded from it.

The reign of K. George I though little disturbed by foreign wars, produced not the smallest diminution upon the capital of the public debts; and those which subsisted at the peace of Utrecht, stood, at his death, at 50,354,953 l. The same taxes subsisted; and every one almost was by this time made perpetual, except indeed the land tax and malt duty, which to this day continue to be annual grants.

But alas! this apparent revenue, arising from a multitude of taxes, was of no use towards defraying the smallest extraordinary expence of government. Every article of it was engaged for debts; and the operations for reducing the interest were calculated only to produce a fund for discharging the capital. The civil list, indeed, that is to say, the expence of civil government, exclusive of army, navy, ordnance, and incidental articles, was paid from the permanent taxes, and considered as a charge upon them. But were not armies and navies then become as regular an expence upon every state in Europe as judges and ambassadors? Undoubtedly they were. Yet after the peace of Utrecht, in laying down the plan which has constantly been followed ever since, for defraying the regular expence of British government, these two great and unavoidable expences were considered as contingent only, and provided for by annual grants: and because armies, in time of peace, in former reigns, had proved dangerous to liberty from the abuse of power, they were still considered in the same light, at a time when liberty and trade were continually threatened from their armed enemies and rivals abroad.
When the continuance of peace, in the reign of George the First, had produced the effect of reducing interest, on many occasions, to 3 per cent the sinking fund began to gather strength. The land tax, from the year 1722, had not exceeded two shillings in the pound; and the extraordinary expence of government, according to the annual grants of the 13 years of his reign, did not exceed 34,800,000 l. or 2,670,000 l. a year. Public tranquillity was very little disturbed during the first twelve years of the succeeding reign; and all the extraordinary expence did not much exceed three millions per annum: yet this expence, small as it was, compared with what it has been since, was almost every year made out, by taking one million at least from the sinking fund: and in the years of the least expence, such as 1731 and 1732, the land tax was reduced to one shilling in the pound, at the expence of taking two millions and a half from the sinking fund.

These steps of administration I neither censure, or approve of. I must suppose every statesman to have good reasons for doing what he does, unless I can discover that his motives are bad. May not the landed interest, who composed the parliament, have insisted upon such a diminution of their load? May not the proprietors of the public debts have insisted on their side, that no money out of the sinking fund should be thrown into their hands, while the bank was making loans upon the land and malt duties at 3 per cent? Might not the people have been averse to an augmentation of taxes? When three such considerable interests concur in a scheme, which in its ultimate, though distant consequences, must end in the notable prejudice of perpetuating the debts, although opportunities offer to diminish them, what can government do? They must submit; and, which is worse, they cannot well avow their reasons.

Such combinations must occur, and frequently too, in every state loaded with debts, where the body of the people, the landlords and the creditors, find an advantage in the non-payment of them. It is for this reason that I imagine, the best way to obviate the bad consequences of so strong an influence in parliament, would be, to appropirate the amount of all sinking funds in such a manner, as to put it out of a nation's power to misapply them, and by this to force them either to retrench their extraordinary expences, or to impose taxes for defraying them.

The second period of George IId's reign, was from the breaking out of the Spanish war in 1739, to the peace of Aix-la-Chapelle in 1748. During these ten years, (1748 being included,) the extraordinary expence was, upon an average, very near seven millions; and at the end of the year 1738, the public debts amounted to 46,661,767 l. bearing 1,962,053 l. interest.

The first expedient for borrowing money during this war, was to continue the duty on salt for seven years; and to mortgage it at once for 1,200,000 l. according to the old plan. To this was added, the expedient of lotteries, and loans upon indeterminate annuities, according to the current value of money.

An additional excise upon spirituous liquors, brought in wherewithal to compensate these additional sums of interest; and the East India company, for lending one million at 3 per cent upon this occasion, had their charter continued from 1766 to 1780. This operation I also consider as an anticipation; and as it was to commence at the distance of 23 years from the time of the grant, could not fail of being very burdensome to the nation, however convenient it might be at that particular time.

Were the India company now, 1766, to purchase the renewal of their charter for 14 years, what a sum might be expected from it!
Yet the value given for the grant they then obtained did not exceed 30,000 l. because the other annuities of 3 per cent. were sold at that time for 97 l. or, in the language of the funds, at 3 l. premium for every 100 l. subscribed; and this so early in the war as 1743.

The practice of borrowing upon premiums had taken place in Queen Anne’s reign, and has of late years been very common. The credit of Great Britain is so firmly established, that in whatever way government inclines to borrow, the moneyed men are willing to lend, provided the loan be made according to the rate of interest at the time.

To avoid therefore the establishment of funds at different rates of interest, in proportion to the fluctuations of money, the bargain is made at one determinate rate. Suppose, for an example, 3 per cent. Then, according as money is found to rise above this rate in the market, a premium is paid out of the money subscribed; as in this case 3 l. was paid out of the 100 l. subscribed; that is, the subscriber retained it, and obtained his 3 l. annuity, for the payment of 97 l. so this remained a 3 per cent loan, instead of being, as it really was, at 3 9/97 per cent. and was sold and transferred as every other 3 per cent without occasioning any perplexity.

As the war continued, interest rose, from the demand for money, when the supplies became deficient.

The year following, viz. 1744, this manifested itself, by the conditions offered by government, which were. That, of two millions to be borrowed at 3 per cent as before, upon the whole sum, 1,500,000 l. should be formed into perpetual annuities, and the remaining 500,000 l. into a lottery, consisting of 50,000 tickets, to be sold at 10 l. each. The original subscribers to this loan subscribed therefore 10 l. for the ticket, and 30 l. for the annuity, in all 40 l.; for which they were to receive 3 per cent. But the premium consisted in this; that every subscriber for 10 tickets, that is, 400 l. of the total fund, had an annuity for life given to him of 4 l. 10s.

This made five thousand annuities on lives, of 4 l. 10s. each, or 22,500 l. a year to be added to the interest of 3 per cent. on the two millions, that is, to 60,000 l. a year of perpetual annuities. So that the whole loan of two millions this year cost government 82,500 l. of interest, of 4 1/8 per cent; 22,500 l. of which was to extinguish with the lives of the subscribers.

Now, if we suppose these life-annuities worth 20 years purchase,(2) this was the same thing as if government had given a deduction of 90 l. out of the 400 l. subscribed; consequently the remainder, which was 310 l. produced 12 l. This makes the rate of interest upon the loan to have been 3.87 per cent. And as government inclined that the loan should be made in this way, the lenders were willing that it should be so; and the difference between 3.87 per cent (the then rate of money) and 4 1/8 interest, which was paid by government, was a sinking fund, as it were, for the gradual extinction of the capital of the lottery for 300,000 l. during the lives of the annuitants.

In 1746, perpetual or indeterminate annuities were constituted at 4 per cent and the premium upon the ten lottery tickets was raised to 9 l. life-annuity.

It would be unnecessary to trace the various methods of contriving the premiums given in the succeeding years of this war. The principle upon which they were regulated was always to proportion them to the rate of interest at the time; and the motive was, I suppose, that by this method of borrowing, a part
at least of the debt would become extinguished with the lives of
the subscribers. There might perhaps be another, to wit, that by
swelling the capital, for value not received, there was an
appearance of borrowing at a lower rate of interest than what in
reality was the case. Thus in 1747, when 6,300,000 l. were
borrowed; instead of giving not quite 4 1/2 per cent. for this
sum, they gave 4 per cent. upon 6,930,000 l. which capital,
although money should return to 3 per cent was still to stand at
its full value; whereas, had 6,300,000 l. been borrowed at 4 1/2
per cent. there would have been a saving of 600,000 l. upon the
capital; and at the peace, the interest of 4 1/2 per cent would
equally have come down to 3 per cent with the other funds.

During this first war of George the Second, the land tax was
constantly at 4s. in the pound; and new branches of customs,
excise, or other inland duties, were created in proportion to the
swelling of the national debts, which, on the 31st of December
1748, amounted to 78,293,313 l. sterling, bearing 3,003,325 l.
interest; and the sinking fund, or surplus of all permanent taxes
then imposed, after paying the civil list, and the interest upon
this capital, amounted to 1,060,948 l. sterling. During this war,
the debts were increased above what they were at the end of 1738,
by 31,631,346 l. sterling capital, and by 1,043,272 l. of
interest or annuities.

The war was no sooner over, and the national expence
diminished, than money began to regorge in the hands of the
monied interest: an infallible consequence of such a violent
revolution, when extraneous circumstances, such as occurred after
the peace of 1763, do not prevent it.

To profit of this conjuncture, government, early in 1749,
proposed that all the public creditors upon capitals bearing 4
per cent interest, redeemable by parliament, and amounting to
upwards of 57 millions, who should accept of 3 per cent from
December 1757, should have their debts made irredeemable until
that time; and in the interval should continue to have 4 per cent
till December 1750; and 3 1/2 per cent from thence, until the
total reduction to 3 per cent in December 1757.

This bold undertaking had the desired effect. Many obstacles
were thrown in the way; but the regorging capitals in the hands
of many, made every one fear the reimbursement for himself; and
the credit of France was then so low, that very few chose its
funds as an outlet for their superfluous money.

But an outlet, unfortunately, was not wanting at the end of
the last war in 1763, as we shall shew in its proper place.

Here then is a notable instance of the effects of regorging
money. A small sum, when compared with a nation's debt, operates
upon the whole capital; as a small balance upon trade affects the
whole mass of reciprocal payments.

The reimbursement of 57 millions offered by government, in
1749, was, to the conviction of all the world, an impracticable
scheme; but the stockholders seeing a large sum ready to be
subscribed, at the interest offered, and feeling the effects
which that regorging money must, in all events, have produced;
willingly, and wisely perhaps, consented to the offer made them.
Had they refused, and had the scheme proposed become abortive
thereby, perhaps the nation, from the disappointment, might have
been so far animated against the creditors, as to have consented
to be at the expence of defraying the service of the following
years, without encroaching upon the sinking fund. What effect
this would have produced upon the rate of interest, in that
conjuncture, no man can tell, nor will the real consequence of
such a measure be ever known, until the happy trial be made. That
it would have brought interest below 3 per cent in December 1757, is, I think, evident: for as matters stood, had the creditors of 57 millions been able to hold out, I must do them the justice to believe, they would not have accepted the proposal made to them; and an addition of all the sinking fund thrown among them annually, at a time they could not dispose of what they had, upon better terms than those offered to them, would undoubtedly then, as at all times, operate a very great national relief, in bringing down the interest of money.

During the tranquillity which continued from the peace of Aix-la-Chapelle, in 1748, to the commencement of hostilities in 1755, the money expended for extraordinary services amounted on an average to above four millions per annum. The expence of government was then increased, by supporting the colonies, and by several great and uncommon outgoings at home, for purposes mentioned in the supplies of those years.

A little before the breaking out of the last war, that is to say, on the 5th of January 1755, the national funded debt was reduced to 72,289,674 l. upon which was paid an annuity of 2,654,500 l. and the sinking fund amounted to 1,308,814 l. At the end of 1763, the year of the peace, the funded debt amounted to 130,586,789 l. 10 s. besides above 9 millions not provided for. So that at the end of last war the national debt exceeded 140 millions; besides the value of the annuities granted in 1757, 1761, and 1762. Hence it appears, that the war occasioned an augmentation of upwards of 58,297,116 l. upon the funded national debt;(3*) besides the difference between the unfunded debts at the beginning and end of the war; and also the value of those annuities.

I shall, before I conclude this chapter, present a short scheme of the state of the nation at that time: but first let us take a view of the methods used to borrow so large a sum in the short period of eight years.

Until 1757, money was borrowed by government, at very little more than 3 per cent but then a loan of 5 millions being necessary, government consented to create annuities of 4 1/2 per cent irredeemable for 24 years. By this expedient the monied people eluded the operation of reducing the interest of this fund, upon the return of peace. How far this expedient was to be preferred to the former, of increasing the capital beyond the money paid; or whether it would not have been still better to have paid for the money wanted, according to the current rate of interest in the market at the time, waiting until a peace might afford a favourable opportunity of reducing it, I shall not take upon me to determine.(4*)

I have observed how rash it is for any one to censure acts of administration, when the motives of a statesman's conduct are unknown. This, however, I have sometimes ventured to do, in speaking of things which happened many years ago: but we ought to be more cautious as we come nearer to our own times, because not having, as in the case before us, a course of experience to point out the errors, we must entirely rely upon our own sagacity, and reason from analogy only.

During the last war, as in that preceding it, taxes were increased in proportion to the interest of the money borrowed; and new impositions were now laid on the articles of great consumption, which produced abundantly. The new malt-duty of 3d. per bushel, and the new beer-duty of 3s. per barrel, bring in net into the exchequer near 820,000 l. per annum, and discharge the interest of above 27 millions sterling, at 3 per cent. Such a sum raised at the end of a war so very expensive, and at the very
time when the credit of France was totally fallen, must have operated in the strongest manner, and did in fact operate more, perhaps, than any other consideration, to put an end to that war, the most glorious that Europe has beheld since the beginning of this century, or perhaps in any age whatever: advantageous to Great Britain, notwithstanding all the expence, provided that the consequences happen to correspond to what may be reasonably expected.

I shall now set before my reader a short state of the taxes, debts, and public funds of Great Britain, at this bright period of her history.

From the best authority I have been able to procure, the revenue of the state, considered under the three general branches of customs, excise, and other inland duties, which comprehend the whole permanent income of this kingdom, was then as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customs net into the exchequer</td>
<td>£2,000,000</td>
</tr>
<tr>
<td>Excise in all its permanent branches net</td>
<td>4,600,000</td>
</tr>
<tr>
<td>Other in land duties net</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Land tax at 4s. in the pound</td>
<td>2,000,000</td>
</tr>
<tr>
<td>Annual malt tax net</td>
<td>613,000</td>
</tr>
<tr>
<td>In all</td>
<td>10,213,000</td>
</tr>
</tbody>
</table>

Let us next state the annual charges and appropriations settled upon this fund.

First then the civil list, to the amount of 800,000

Secondly, The interest of about 131 millions of funded debts at different rates of interest, about 4,500,000

Thirdly, The interest of nine millions not then provided for, supposed to be at 4 per cent. 360,000

In all of regular and permanent annual charge 5,660,000

So there remains free, about 4,553,000
From which if we deduc the annual grants of land and malt-taxes, which extend together, as above, to 2,613,000
There will remain as the produce of the sinking fund(5*) 1,940,000

In this state, nearly, stood the affairs of Great Britain after the conclusion of the peace in 1763.

It now only remains to offer some conjectures why, after the conclusion of this peace, as after the peace of Aix-la-chapelle, money was not found to regorge, so as to furnish an opportunity of reducing the rate of interest upon all redeemable debts, and by that to raise the amount of the sinking fund, and more firmly to establish the national credit.

After the fall of the credit of France toward the end of 1759, Great Britain had the command of all the money to be lent in Europe; and accordingly amazing sums were borrowed in 1760, 1761, and 1762. Of the sums borrowed, a great part, no doubt, was the property of strangers; but they, not being so well acquainted with the affairs of this nation as the English themselves, instead of subscribing to the loans, lent the money to our own country people, who, in hopes of a great rise upon the return of peace, filled the subscriptions with this borrowed money.
The consequence was, that no sooner did the funds begin to rise after the peace, than many creditors demanded their money of those who had invested it in the public funds. This obliged the latter to bring their stock to market, and this again had naturally the effect of keeping the funds very low. Some, more prudent than the rest, had borrowed upon a long term of repayment: which had the effect of putting off still longer the settlement of the funds in the hands of the real proprietors, and of taking them out of those who only held them nominally.

Besides this accidental cause of the low price of the funds, other circumstances, no doubt, greatly contributed to produce the same effect.

How great soever the balance of trade, that is, of exportations above importations, may have been of late in favour of England, still the mighty sums drawn out by the foreign creditors have certainly, upon the whole, prevented much money from coming home on the general or grand balance of payments. While this continues to be the case, it is impossible that much money should regorge at home in the hands of the natives, and until this shall happen, there can be no hope of seeing the 3 per cents rise above par. But then the rise, small as it is, since the peace, may encourage us to hope that this favourable change is not far off: for had the profits of our trade been quite unable to balance the loss upon our foreign debts, the funds would undoubtedly still continue to fall, which is demonstrably not the case from the circumstances of the loan in April 1766, obtained by government, with the assistance of a lottery indeed, at 3 per cent.(6*)

Here then was an outlet provided for more money than all that could regorge at home, viz. the payment of those foreign creditors, to whom the stockholders were indebted. besides this, the sale by government, of such tracts of land in the new acquired islands in the West Indies, provided another; money was even placed in the funds of France soon after the peace, until the adventurers were checked by the operations of the King's council, in reducing both capitals and interest upon them, contrary to the original stipulations with the creditors. A lucky circumstance for Great Britain, as it forces, in a manner, all the money of the continent into the English funds, which equally remain a debt upon the nation, whether high or low in the market.

Chap. VIII

Contingent Consequences of the Extension of Credit, and Increase of Debts

I now proceed to inquire what be the consequences of this might change produced upon the policy of industrious and trading states from the establishment of credit, debts, and taxes.

I have, from the very beginning of this inquiry, occasionally taken notice of the influence which such a change must make upon the spirit and manners of a people. The lower classes, who are slow in forming combinations, do not soon comprehend the necessary consequences of such revolutions. Even ministers have been often at a loss to judge of the consequences which might follow upon some steps of their own conduct relative thereto, although taken upon mature deliberation.

When public credit is employed for raising money upon a plan of refunding the capital, either by uniform annual payments exceeding the interest, or by funds established for sinking the
capital, no contingent consequences can happen, provided the plan be executed: the debts contracted will be paid, and matters will return to their former state.

When public credit is employed for raising money upon payment of a perpetual interest; or if, whatever be the plan laid down, capitals should not happen to be discharged, but the debts should swell continually; in this case, the contingent consequences are many and various, far exceeding any man’s sagacity to investigate.

If we judge of them from what past experience has taught us, we may conclude, that, in one way or other, all debts contracted will in time disappear, either by being paid, or by being abolished: because it is not to be expected that posterity will groan under such a load any longer than it is convenient; and because in fact we see no very old public debts as yet outstanding, where interest has been regularly paid out of a fund which has remained in the possession of the state.

This is a very rational conclusion from past experience; but it is relative only to the circumstances of past times. While the debtors are the masters, there is no difficulty of getting clear of debts: but if the consequence of this new system should be to make the creditors the masters, I suppose the case may be different. Farther,

In former times public debts were contracted between the state and its own subjects; but at present we see that in such loans, foreigners, even enemies, are invited to concur: and the better to engage them to it, a total immunity is promised from all taxes upon the interest to be paid by the borrowers.

This circumstance has already drawn the attention of Princes, in the discussion of their reciprocal concerns. We saw how, in the treaty of Dresden, which took place after the King of Prussia’s invasion of Saxony in 1745, it was provided by the 6th article, that all debts due by the bank of the Steuer to that Prince’s subjects, were to be paid, on presentation of their contracts.

We have not indeed as yet seen wars carried on for the payment of debts; but the case may happen, and kingdom may be carried off upon such pretensions, as well as private property. What a chain of contingent consequences arises from this single combination, were this a proper place to introduce them!

But without going to the supposition of Princes or nations becoming reciprocally engaged in debts, and thereby involving such mighty interests in the support of public faith, we may easily conceive, that a monied interest, of a long standing, may have influence enough to produce a change upon the spirit and manners of a people.

Let me here take the example of Great Britain. Do we not see how the spirit of that nation is totally bent upon the support of public credit? And do we not see how absolutely their commercial interest depends upon it? Can it be supposed, that every one has combined all the consequences which may flow from the constant swelling of their debts? Or, indeed is it possible to determine what will be the consequences of them? This however we may suppose at least, because we see the progress of it already, that the interest of the creditors will daily gather strength, both in parliament and without doors: and if from small beginnings it have arrived at the pitch we now see, it is very natural to conclude, that, in time, it may become stronger, and that at last, the creditors of the nation may become the masters of it.

When any one interest becomes too predominant, the prosperity of the state stands upon a precarious footing. Every interest
should be encouraged, protected, and kept within due bounds. The following speculations are intended for the application of principles to new and unexperienced combinations; where natural causes may work their direct and immediate effects, and thereby prove prejudicial to the general welfare, unless they be foreseen in some degree, and proper remedies be prepared against them.

Europe was possessed by our ancestors free from taxes; our fathers saw them imposed, and we now see how fast they become mortgaged for our debts. We can as little judge of the extent of our credit, as they could of the possibility of contributing so large a fund for the support of it.

As the plan of imposing taxes has been extended, we see the public coffers every day receiving a vast flux of money, and like the heart in the human body, throwing it out again into circulation. Happy state, could it be lasting, and were this flux and reflux preserved in a due proportion to all the uses for which it is intended! But states have their vices, as well as private people. Public opulence should be proportioned to public exigences: but how often do we see ambition putting on the face of public spirit, and animating the resentment of a nation, under colour of providing for her security? Hence wars, from wars expence: recourse is had to credit, money is borrowed, debts are contracted, taxes are augmented; all this increases circulation, which demands a supply of currency: this is procured by melting down the solid property. These operations performed, the public money is either sent abroad, or remains at home. If sent abroad, more property must be melted down, in order to fill up the void. If it remain at home, it will animate every branch of circulation; and when the exigence, which required this additional quantity of money, is over, what circulation finds superfluous, will stagnate in the hands of the monied interest, and will either form a fund for the filling of new loans to government, or it will be laid out in the purchase of the property formerly melted down, which produced it; and thereby will be consolidated a-new.

Every interest in a state must influence the government of it, in proportion to its consequence and weight; and every government must influence the spirit of the people who live under it.

Now, as we have seen how industry creates wealth; how wealth and confidence create credit; how credit creates debts and taxes; how these again occasion an augmentation of money, by the melting down of property; and how this property becomes transferred to a new set of men, once the monied interest, who afterwards acquire the lands, and consolidate this quantity of money which is become superfluous to circulation; does not this chain of consequences represent a kind of circle, returning into itself? And is it not plain, that without the intervention of this engine, namely the money created in proportion to the demand for it, the chain would be cut off, before it could reach the link from which it first set out? Will not this conversion of the former monied interest into a new landed interest, insensibly inspire the bulk of the landlords with sentiments analogous to a monied interest? Is not this evidently more and more the case every day in England? And from this may we not prognosticate the solidity of public credit in that nation?

If on the other hand we find, as in France, industry in times of peace drawing wealth from other nations, and thereby increasing the coin, upon which alone credit is circulated through the kingdom; and then foreign expence sending it away in times of war; must not circulation keep pace with the coin, that
is to say, be circumscribed within the proportion of it?

If the solidity and extent of the King's free revenue should afford credit to borrow this coin; and if, without providing a proportional supply of currency to fill up the void, the coin borrowed be sent out of France; how can the ordinary circulation be carried on?

Let us here recal to mind what was said in the 22d chapter, upon banks, where we distinguished voluntary circulation, which is buying, from involuntary circulation, which is paying: we there observed how paying must always take place of buying; consequently, we may here determine that taxes must be paid before buying, that is consumption, can go on. The deficiency therefore of coin for circulation, will, first, proportionally affect the trade, manufactures, and consumption of France, and afterwards the revenue which arises from them. Is not this the constant complaint in France, when war carries off their coin? The remonstrances of all their parliaments are filled with it.

In times of peace, the amount of what comes from the people is greater than in time of war: but then there is coin sufficient for all the payments; and when they are made to the royal treasury, they immediately return into circulation, and no hurt is felt.

I insist the more upon this principle, and I introduce it in so many different ways, and under such a variety of views, because I take it to be one of the most important considerations in the whole doctrine of credit, and one which I have never seen suggested by any French or English writer upon this subject. Many are the complaints for want of money; but no method have I ever seen proposed for obtaining it from solid property; the easiest and safest of all operations, when conducted with honesty, and according to principles.

As money therefore is the means of closing the chain of consequences already mentioned, and forming it into a circle, as has been said, we plainly see how, when it is wanting, the same effects cannot be produced; and consequently the country of France, where money is confined to the coin, will be very long of adopting the sentiments of a monied interest; whether for its profit or its loss, in the end, is not here the question.

We have now traced the contingent consequences of public credit as far as to shew how it may tend to influence the spirit of a people, and make them adopt the sentiments of a monied interest.

The allurement of acquiring land-property is very great, no doubt, especially to monied men. The ease and affluence of those, on the other hand, who have their capitals in their pocket-books, is very attracting to the eyes of many landlords, especially at a time when they are paying the heavy taxes laid upon their possessions.

The firm establishment of public credit tends greatly to introduce these reciprocal sentiments of good-will among the two great classes of a people, and thereby to preserve a balance between them. The monied interest wish to promote the prosperity of the landlords; the landlords, the solidity of credit; and the well-being of both depends upon the success of trade and industry.

Let us now suppose what is actually the case in Great Britain, that from the swelling of public debts an enormous fund of personal property is created. This is formed out of the income of the whole nation; and as it has been purchased by those who have lent money to the state, in common language it is included in what we call the monied interest: it is however very distinct
from it, as will be understood from what is to follow.

The capital of the public debts is the price which has been
paid for the annuities due to the creditors, and is now no more
money to them than land is money to the landlord. It may be
turned into money, no doubt; but so may land.

The monied interest, comprehends, those only who have money,
not realized upon any fund, and who either employ it in the way
of trade, in the way of industry, in jobbing in land, in stock,
or in any way they please, so as to draw from it an annual
income. While it is fixed, that is, given for any permanent
value, it ceases to be money; when it is called in, it becomes
money again. Let stock, therefore, suffer ever so many
alienations from hand to hand, it still continues stock: it never
can become land, it never can become money, until it be paid off
by government. I hope this idea is so clear, as to be well
understood. Stock, therefore, I here consider as one great branch
of solid personal property; as far as the security of government
is solid and good; and as such, may be melted down into money by
banks, as well as any other thing.

Now I have said that this fund is formed out of the income of
the whole nation; consequently by fund, here, I do not understand
the capital, which exists no more, but the interest which is
drawn for it: it is this interest, I say, which is paid from the
land, the money, the trade, the industry, &c. which forms one
great branch of the monied interest of England. From the land,
out of the amount of the taxes charged upon it; from the money,
trade, industry, &c. out of the amount of proportional taxes,
such as excises, customs, salt-tax, stamp-duties, and the like.

The more the national debts increase, by the monied interest
realizing into this branch of solid property the funds, the more
the taxes must augment; and consequently, the more the
proprietors of the funds themselves must be affected by such
taxes, as well as the landlords.

From this exposition of the matter, it may be concluded, that
as proportional taxes affect every man's income, according to his
consumption; the landlord, caeteris paribus, who pays a land tax,
as well as his proportion upon his consumption, is more hardly
dealt with than the proprietor of the other branch of solid
property, the funds, who pays his proportion only of the last.

But the condition of the stockholder is not equally
favourable to that of the landlord, for two very plain reasons.
The first is, that the income of his stock cannot increase; that
of the land may. The second is, that the swelling of this great
capital of stock has the effect of sinking the interest upon it,
and consequently of diminishing the income of the stockholder:
and in proportion to this diminution, the value of land must
augment. Now I readily allow that the augmentation upon the value
of lands is no inducement to a landlord to turn them into money;
because he would then lose upon his money, what he gains upon the
additional price received. But it is a great advantage in another
respect, namely, that he thereby diminishes the interest he pays
upon his debts, if he have any; and if he have none, it enables
him to borrow at a lower rate for the future; and by improving
his lands with the money borrowed, he may augment his income much
beyond the proportion of the interest paid.

It is therefore necessary, in imposing land taxes, rightly to
combine every circumstance; that the load of all impositions may
be equally distributed upon every class of a people who enjoys
superfluity, and upon no other. If, after a fair deduction of
principles, this shall appear a thing possible to be done, we may
expect to see statesmen engaged to depart from the old maxim of
grasping at what is readiest and nearest at hand, to wit, the
landed property, with a view to spare a class of people, which,
in a well regulated state, never can be made to feel the burden
of any proportional tax whatsoever; I mean the industrious poor.

I now proceed in my inquiry into the nature and consequences
of the swelling of this great branch of property, the public
funds.

As to the nature of it, we have said already, that it is
formed by realizing money into stock. When government borrows,
the lenders must be people who have money. If the loan be made at
home, the money is no sooner paid in, than it is spent; and as we
may suppose that it would not have been lent, had either the
lenders found it necessary for their current expence, or had they
found a more profitable way of realizing it than by lending it to
government, we consider it as having been in a state of
stagnation; but being lent to government, it is thrown into a new
channel of circulation.

Farther, this money stagnating in the hands of the lender,
either proceeded from his income, which exceeded his expence, or
from the profits of his industry. In either case, the country is
neither poorer or richer, when considered in a cumulative view,
than if the same sum had been lent to private people at home.

Let us next suppose the money to have been borrowed for the
exigence of a foreign war. In this case, if it be borrowed at
home and sent abroad, it must first be converted into the money
of the world, gold and silver, and then sent off, to the
diminution of this kind of property; or it must go abroad in the
money of the country, credit, to the diminution of the annual
income upon which the credit is established. As this last
operation may not be so clear, an example will explain it.

Government borrows one million: it is paid in paper, and must
be sent to Holland. If at that time a balance be due by Holland
of one million, bills will readily be found for it. In this case,
the balance of trade is borrowed as it were by government, and
becomes converted into a capital of a million in the public
funds, the interest of which will remain at home, and continue to
be the property of the nation. But as the value of this balance
is sent to Holland and spent abroad, it is, upon the whole, to
the nation, as if no balance had been due to them. This I call a
lucrum cessans to the country.

But suppose no balance to be due by Holland at the time the
million comes to be sent off, I say the consequence will be, to
alienate in favour of foreigners a part of the annual income,
proportional to the whole interest paid for the loan, whether it
has been subscribed for by foreigners, or by natives.

If the subscription be filled by foreigners, the consequence
is evident: it is equally so in the other case, upon a little
reflection.

Suppose then the million subscribed for, and paid in London.
Bills are sought for; none are found, I mean in the way of
reciprocal compensation, does not this sum immediately become a
balance against London? And as a country loses all such balances,
and the country to which they are due gains them, this million is
lost to England, and forms what I call a damnum emergens; that is
to say, her former property or income is so far diminished, or
comes to be transferred to strangers.

From this we may conclude, that in all matters of public
borrowing, it is of no consequence whether the subscription be
filed by natives, or by foreigners, when the value of it is to be
sent abroad.

Let us next examine the state of the question when the loan
is made in order to be spent at home, as is the case after a war, when the unfunded debts come to be paid off.

We have said that loans are filled by money stagnating, which the owner desires to realize: if he cannot do better, he lends it to government; if he can do better, he will not lend it.

While the uses of domestic circulation absorb all the money in the country, that is to say, when there are private persons ready to borrow all the money to be lent, at this time government cannot borrow at home; and if they did, by offering a high interest for it, the borrowing would do harm to circulation; because it would raise interest at home, or disappoint those who would gladly borrow it, for little more than the interest offered by government.

Let us next suppose that after a war, when the unfunded debts are either bearing a high interest, or selling at discount, government shall find an advantage in opening a subscription, which may be filled from abroad, at a lower rate than the then actual value of money. Suppose, I say, the Dutch should be willing to lend at 3 per cent while money in England stood at 4 per cent. I ask if, in this case, government ought to borrow from Holland, at the expence of sending the interest out of the country, rather than suffer such debts to sell at discount; or continue paying a higher interest at home for what they owe?

It is my opinion that still they ought to borrow abroad, for the following reasons. That if the high interest at home proceed from want of money, that is to say, from circulation not being full enough, it is their interest to borrow, were it for nothing else than to supply circulation; because unless this be full, all industry must languish. But suppose it should be said that circulation is full enough, that industry suffers no check from that quarter, but that there being no superfluity of money, interest stands 1 per cent higher than it would do were there considerable stagnations. In this case also, I think it is their interest to borrow, were it for no other reason than to produce such stagnations.

It is a general rule everywhere, that there is no having enough without having a superfluity; at least there is no certainty of one's having enough without finding a superfluity. Borrowing abroad, therefore, in small sums, at such a time, will produce stagnations at home, from which succeeding loans may be filled, after circulation is sufficiently provided: and even in case more should be borrowed from strangers than may be found necessary; and that in consequence of this, too much money should come to stagnate at home, after the demand of government is over; the monied interest would then lend, in their turn, to other states, where interest is higher; and the annual returns from that quarter would more than compensate what must be sent away, in consequence of the former borrowing.

From these combinations, let us draw some conclusions.

First, That the effect of public borrowing, or national debt, is to augment the permanent income of the country, out of stagnating money, and balances of trade.

Secondly, That this income so created, may be either the property of natives, or of strangers.

Thirdly, That when money is found to regorge, in a country where circulation is not diminishing, it may be supposed to proceed from the coming in of a right balance of trade.

Fourthly, If stagnations in one part be found to interrupt circulation in another, public borrowing, for domestic purposes, has the good effect of giving vent to the stagnation, and throwing the money into a new channel of circulation.
Fifthly, That the sum of interest paid by any nation to strangers, shews the general balance due by the nation, after deducting all the profits of their past trade from all the expence of their foreign wars.

But here it must be observed, that as on one hand we are comprehending all that is paid to foreign creditors, on account of the funds they have in England, for example, so on the other hand, must be deducted from this, all the payments made to Englishmen by other nations.

Sixthly, From this last circumstance we discover that the lending to other nations by private hands, produces the same effect to a nation as if the state were actually paying off the debts due to strangers. Consequently, when Moses permitted the Jews to lend to strangers at interest, and forbade such loans among themselves, his view was to establish a foreign tribute, as it were, in favour of his own nation, instead of promoting luxury at home.

Seventhly, As the balance due to a nation upon her trade, is found to compensate, pro tanto, the money she spends abroad, we may from the same principle, conclude that so soon as she ceases to expend money abroad, the balance of trade in her favour, if not realized at home in some new improvement, will diminish, pro tanto, the interest, or capitals due to strangers. This is evident from the nature of balances, of which we have treated already.

Eighthly, The consequence, for example, of England's owing large sums to strangers, will, from the same principle, constantly prevent exchange from rising very high in her favour, when the balance of her trade comes to be paid to her: because on every such occasion, her foreign creditors will be glad to disappoint exchangers, by furnishing bills for their interest, or capitals, to those who owe the balance; the consequence of which is plainly to diminish the foreign debts. (7*)

This circumstance implies no loss to the nation which is creditor in the balance of trade, and debtor upon the capitals; because we have proved that the price of exchange never affects a nation, but certain individuals only, who pay it to others of the same nation.

This is sufficient, I think, to point out in some degree the nature of a national debt. I come next to examine the consequences of its constant augmentation; when proper measures are not taken, either to pay it off, or to circumscribe it within certain bounds.

In what is to follow, I shall throw all consideration of capitals totally out of the question; and as to the amount of taxes, it is quite indifferent whether the money proceeding from them be in consequence of an improvement made upon those already established, or from new impositions: such combinations will come in more properly afterwards.

If the interest paid upon the national debt of England, for example, be found constantly to increase upon every new war, the consequence will be, that more money must be raised on the subject for the payment of it. The question then comes to be. First, How far may debts extend? Secondly, How far may taxes be carried? And Thirdly, What will be the consequence, supposing the one and the other carried to the greatest height possible?

I answer to the first, that abstracting from circumstances which may disturb the gradual progress of this operation, before it can arrive at the ne plus ultra, debts may be increased to the full proportion of all that can be raised for the payment of the interest. As to the second, How far taxes may be carried, I shall
not here anticipate the subject of the following book, any farther than is necessary to resolve the question before us.

Taxes, we have said, either affect income, or consumption. The land-tax of England is now at 4 shillings in the pound, upon a supposed value of the property affected by it, which is all real and personal estates, the stock upon lands, and some few other particulars excepted.

This tax may be carried to the full value of all the real estates in England. As for personal estates it never can affect them proportionally; and this part of the statute of land-tax which passes every year, and imposes 4 shillings in the pound on personal estates, carries in it a mark of our former ignorance in matters of taxation.

The notion of actually imposing 20 shillings in the pound upon the real value of all the land-rents of England, appears to us perfectly ridiculous. I admit it to be so; and could I have discovered any argument by which I could have limited the rising of the land-tax to any precise number of shillings under twenty, I should have stated this as the maximum rather than the other.

The second branch of taxes comprehends those upon consumptions, excises, and the like. The maximum as to this branch must depend upon the interests of foreign trade; because this is affected in a certain degree by the prices of domestic industry. Other taxes have not this effect, as we shall shew in its proper place.

But as foreign trade on the other hand is not essential to the support of the domestic industry, consumption, circulation, &c. of any nation, as has been proved in the second book, but merely to its increasing in wealth proportionally to other nations; were foreign communications cut off entirely, I perceive no limit to which I can confine the extent of proportional taxes.

Let me therefore suppose a term beyond which impositions of all kinds must come to a stop, and then ask, in the third place, what the consequence will be? I answer, that the state will then be in possession of all that can be raised on the land, on the consumption, industry and trade of the country; in short, of all that can be called income, which it will administer for the public creditors.

When this comes to be the case, debts become extinguished of course; because they come to be consolidated with the property: a case which commonly happens when a creditor takes possession of an estate for the payment of debts equal to its value.

Government then may continue to administer for the creditors, and either retain in its hand what is necessary for the public expence of the year; or if it inclines to shew the same indulgence for this new class of proprietors as for the former, it may limit the retention to a sum equal only to the interest of the money wanted; and in this way set out upon a new system of borrowing, until the amount of taxes once more extending to the amount of the public revenue be transferred to a new set of creditors. This is the endless path referred to in the ninth chapter of the second book, which, after a multitude of windings, returns into itself.

A state, I imagine, which would preserve its public faith inviolable, until a period such as I have been supposing, would run little risk of not finding credit for a new borrowing. The prospect of a second revolution of the same kind with the first would be very distant; and in matters of credit, which are constantly exposed to risk, such events being out of the reach of calculation, are never taken into any man's account who has money to lend.
The whole of this hypothesis is, I readily agree, destitute of all probability; because of the infinite variety of circumstances which may frustrate such a scheme. I introduced it merely to shew where the constant mortgaging of a public revenue may end; and to disprove the vulgar notion, that by contracting debts beyond a certain sum, a trading nation which has a great balance in its favour, must be involved in an unavoidable bankruptcy. To say that a nation must become bankrupt to itself, is a proposition which I think implies a contradiction.

Chap. IX

Of Bankruptcies

In the last chapter we have been running through a chain of consequences relative to the increase of public debts, which appear as extravagant to us at present, as it would have appeared to Davenant, to have supposed the debts of this nation to grow up to their present height, without the risk of involving the nation in a general bankruptcy.

But these consequences are merely contingent. The present debts may either be paid off, or the nation may be involved in a general bankruptcy. In either case, the vast property in the funds, this great article of permanent income, belonging to natives and to foreigners, must wither and decay, and at last disappear altogether.

We may therefore conclude, that one of three events must happen, viz. either First, Debts will swell to such a pitch as at last to pay themselves: or, Secondly, The nation will be involved in a bankruptcy.. or, Thirdly, They will be fairly paid off, or at least circumscribed within reasonable bounds.

The first supposition we have examined; the second we are now to consider; the last will be the subject of the following chapter, with which I shall conclude this book.

I shall advance no argument to prove that the scheme of a public bankruptcy is either lawful, honourable, or expedient, if voluntarily gone into by a state; because I think it is diametrically opposite to every principle of good government. It is a maxim uncontroverted, that a contract ought to be binding between the parties contracting, and that it ought to be fulfilled in every article. If the public good be alleged as an overruling principle, to which every other must give way, I readily admit the justness of the exception. There is another of equal force, the impossibility of performance. When such arguments are used to engage a nation to commit a deliberate act of bankruptcy, two things must be examined: the first, is the interest which the public has in adopting the scheme: the second, the consequences of it. What reasons a state may have for breaking faith with her creditors, I shall consider afterwards; but let us first enquire what might be the consequences of a general and total bankruptcy in England; from which we may gather what difference it would make, were it partial only; and by this inquiry, we may be led to discover the proper method of breaking faith, in case it should become unavoidable. This is what in another place I called bringing credit decently to her grave; when, after being overstretched, it can no longer be supported.

A bankruptcy may take place in two ways: either as a consequence of circumstances which cannot be prevented; or by a deliberate act of government.

Were the trade and industry of England to decay, the amount of all the permanent taxes might so far diminish, as to prove
insufficient to pay the interest of the national debt, and defray the expence of civil government. Were the people to be blown up into a spirit of revolt against taxes, the same event would probably happen. In either case, the natural and immediate consequences of the bankruptcy would probably follow one another in this manner:

First, Every creditor of the state would become poorer in proportion to the diminution of his income.

Secondly, Consumption and the demand for work would diminish in proportion to the part of that income withheld, which the creditors annually expend for these purposes.

Thirdly, Trade would directly suffer, in proportion to that part of the said revenue yearly thrown into it by the public creditors at present; and it would consequently suffer, in proportion to the hurt resulting to private credit, from the consequences of the bankruptcy.

The creditors would then lose all, the trade of England would be undone, and the multitudes who live in consequence of the demand for their industry from the one and the other, would be reduced to misery. These immediate effects would first manifest themselves in the capital. The consequences would soon be felt all over England: a diminution upon the consumption of the fruits of the earth; a stagnation of that commerce which is carried on between London and the country (which we have seen to be equal to the amount of all the taxes, and to all the land-rents spent in London) would soon throw every thing into confusion. But taxes would be abolished: of that there is no doubt. Let a deliberate bankruptcy take place without any abolition of them by law, they would soon sink to nothing, from the utter impossibility there would be found to pay them.

A total bankruptcy, therefore, coming upon England, either from a decay of her trade, or a disturbance in collecting the public revenue would have the effect of plunging the nation into utter ruin at home: what might be the consequences from abroad, I leave to the reader's sagacity to determine.

Let me now suppose a bankruptcy to take place from a deliberate act of power, with a view of expediency.

The difference between the two consists in this; that in the first, all the consequences we have mentioned would follow one upon another, without a possibility of preventing them: in the other, a plan to prevent them might be concerted.

Let me then suppose, that government shall find it expedient, at any time, to use a spunge for the public debts; that they shall fear to external bad consequences, either from the resentment of those states who may be hurt by it, or from the ambition of others who may profit by it; that they shall coolly resolve to sacrifice the interest of all the creditors in favour of the whole body; and that they shall deliberate upon the plan to be followed, in order to bring about so great a revolution, without essentially hurting any interest in the state, that of the creditors alone excepted.

In this case, I imagine, they would begin by ordering the amount of all that is paid to the creditors, to be set apart as a fund for the execution of the plan.

They would purchase all over England, every article of produce and manufacture which might remain upon hand for want of a market: they would feed all those who would be forced to be idle for want of employment: they would instantly put proper employments into their hands; one week's delay in the execution of this part of the plan would throw the manufacturing interest into such confusion, as to be past all remedy: they would furnish
credit to all the merchants subsisting, in proportion to what they had lost by the extinction of the funds: they would establish offices everywhere, to supply the wants of those who would be totally ruined, until by degrees they could re-establish confidence, the parent of trade, the mother of industry. By such precautions, properly taken, and properly executed, none would suffer but the unhappy creditors and their families, who, from great opulence, would be reduced to poverty.

As far as human prudence is insufficient for going through so great a detail all at once; so far would the effects of a general bankruptcy add hurtful consequences to those which in every case are unavoidable.

Were a statesman endowed with the supernatural gift of turning the minds of a nation at his will, and of foreseeing every consequence before it happened, such a plan might be executed. Another who, with the greatest capacity ever man was endowed with, would, for expediency, not from necessity, deliberately undertake a general bankruptcy, I should consider as a madman.

I should rather prefer to submit to the natural consequences which might result from an accidental bankruptcy, than endeavour to avoid them by a plan too complicated for human wisdom to execute.

Let us next suppose the scheme to be fairly executed from a view of expediency, no matter how, and all inconveniences prevented during the execution, what would be gained by it?

If by the supposition all taxes be kept alive, for at least a certain time, in order to prevent a total confusion, certainly no body could gain during this period; even the state itself would lose, because every branch of consumption would infallibly diminish. But that time elapsed, and taxes reduced to the lowest, who would be the gainers? We shall see when we come to the doctrine of taxation, that a sudden abolition of taxes, in consequence of a bankruptcy, would be advantageous to no body, but to creditors upon mortgage, and to the idle: not to landlords; because their incomes would diminish more than in the proportion of the present land-tax, at least their improvements would be interrupted, and their rents ill paid: not to the manufacturing classes; because at present they pay no taxes, but in proportion to their idleness or extravagance, as shall be proved: the monied interest, not secured on land, would I suppose be extinguished; trade and credit at an end. The gains then would be confined to those who have money secured upon land, where the capital is demandable. In such a situation, the interest of money would rise beyond all bounds; and a debt which might have been considered as a trifle before, might then carry off an estate. The idle also who live peaceably upon a very moderate income would find a great advantage from the fall of prices for want of consumption, and from the distress of the industrious; but the indigent poor, who are supported from voluntary charity, would suffer: all the great establishments for labour and industry, in public workhouses and hospitals, would fall to the ground: the numbers of poor who are there maintained at present would come upon a society, which is beginning to lose those tender feelings of compassion, which in countries of idleness, are more or less prevalent in proportion as misery is more or less familiarly before them.

To say all in one word, a total bankruptcy, and abolition of taxes, would bring this nation back to the situation it was in before taxes and debts were known.

Does any body imagine that our present situation is not
analogous to our present policy, and that it is possible that independently of the same circumstances we should long continue to enjoy the advantages we feel? No: were we in the same situation as formerly, we should feel as our fathers felt. They had as good understandings to improve their circumstances as we have; but they had to do with an idle. we with an industrious common people. Trade and credit have been long at work to effect this great revolution: the operation is not as yet compleated, and a total bankruptcy now, would destroy every good effect of it for a long time.

Were taxes made to cease, the large sums which proceed from them would disappear entirely. Money would not, as some imagine, become equally distributed among those who now pay the taxes, and so proportionally increase every man's income. The reason is plain: the money paid for taxes, circulates; because it is demanded by the public, and is spent by it. Were taxes suppressed, people having less occasion for money than formerly, would circulate less in proportion. It is the necessity of paying taxes, which creates this money for the payment of them; and when this method of creating is not contrived, the taxes cannot be paid, as has been often said. Now it is this great flux of money from taxes which animates the trade of England: take them out of the circle, what becomes of the whole?

To suppose, therefore, so great a revolution in the circulation of a country, as that produced by the cessation of taxes; and to suppose no interruption from it upon the state of industry, and the employment of the people of this nation, is a proposition I must reject, as being contrary to all principles; and to this among the rest, that it would be a most sudden, and a most violent revolution; which throughout the whole course of this inquiry, we have found to involve inconveniences beyond the power of any theory to point out or to remedy.

Upon the whole we may conclude, that the fatal consequences of a bankruptcy would be many; and that the good resulting from a total abolition of taxes would be confined to two objects. First, A relief to those who pay them upon their possessions, or persons. Secondly, A diminution of prices in favour of the idle at home, and of trade abroad: great objects, no doubt, could they be obtained at less expence than the consequences of a total failure of public credit and domestic industry. Perhaps when we come to examine the Principles of taxation, we shall find that taxes do not raise prices so much as is generally believed; and those principles which influence the application of public money, will point out better expedients than a bankruptcy for compassing the great national objects which we have just now mentioned.

But let us suppose a case, which may possibly happen, as matters seem to go on. Suppose, I say, that by continuing to carry on long and expensive wars, the sum of interest paid to strangers should exceed all that the nation can gain by her trade. In this case, there must be a general balance of payments against her every year, which very soon would manifest itself by the most fatal consequences.

The bank of England would be the first to feel them, by the departure of all the coin and precious metals. Trade would feel them next, and then indeed they would become universal.

In such a situation, I fairly acknowledge, that I cannot discover any expedient to avoid a bankruptcy. Engaging the foreign creditors to become citizens, by the allurements of the greatest privileges, and bills of naturalization, are vain speculations. Unless some resource, hidden from me, should, upon such an occasion, open itself, in the deep recesses of future
events, I believe the nation would soon be driven upon the fatal rock of bankruptcy. The idea of a nation's becoming bankrupt to itself, I have always looked upon as a contradiction; but that it may become bankrupt to the rest of the world, is quite consistent with reason and common sense.

I shall not take upon me to suggest what mode of bankruptcy would in such a case be the best; a total, or a partial one. The partial, I am afraid, would, in England, work effects almost as hurtful as the other. But if ever the case should happen, the only way will be, to watch over every symptom of the approaching catastrophe, and to improve circumstances to the best advantage.

I cannot omit inserting in this place the opinion of a most sagacious and most intelligent foreign merchant, most consolatory to Great Britain, with respect to the debts she owes to foreigners.

The late Mr Megens, who lived many years in England, composed a treatise in German, which Mr Horsley translated in 1752, under the title of the Universal Merchant. In the 31st Section of this work is the following passage:

'And although it cannot be denied, that for as much as foreigners are become great creditors in the public debts of England, a great sum of interest must be annually made good to them. Yet if it appear that the private people abroad, are more indebted to the private people here, than such interest amounts to; the nation has no prejudicial draught upon it, on account of such debt; and that the general balance of trade is highly in favor of England.'

Few people, I am persuaded, have any such idea as this laid down by Mr Megens. Happy, for Great Britain, could it be verified!

Of what infinite consequence is it then for a British statesman to inquire into the amount of debts owing to strangers, and into the state of the balance of trade? In speaking of exchange, I threw out many things concerning the idea of putting that branch of business into the hands of the bank, in conjunction with the exchequer. Were the state brought into the dilemma of either submitting to this gradual decline of trade, from a cause which could not be removed; or of being pushed to the necessity of leaping into the terrible gulph of a deliberate bankruptcy; in such a dilemma, I say, what infinite advantages might not be drawn from the management of exchange?

I have heard it said, that the debt owing to strangers was a great advantage to England; because it drew people to that market where their funds are settled. I allow all the force any one can give to this proposition: But alas! what would it avail, whenever England becomes incapable to furnish goods equivalent to all her imports from abroad, added to all she owes to her foreign creditors?

I am very far from supposing the present situation of England to forebode the approach of any such disaster; but it is good to represent to one's self some determinate object, by which we may judge of our situation in times to come.

Debts have increased far beyond the imagination of every mortal. Great men have uttered prophecies, which have proved false, concerning the consequences of a debt of one hundred millions. From this most people conclude, that they will go on until some unforeseen accident shall dash the fabric to pieces. I have been pretending to shew how they may go on in a perpetual chain. But alas! one fatal circumstance was there omitted; and now that it has been taken in, I think it serves as a datum, to resolve the most important problem of this science, viz. How to
determine the exact extent of public credit. The solution of which is, That it is not necessary that public credit should ever fail, from any augmentation of debts whatever, due to natives; and that it must fail, so soon as the nation becomes totally unable either to export commodities equal to all their imports and foreign debts, or to pay off a proportional part of their capital, sufficient to turn the balance to the right side.

From this proposition two corollaries may be drawn.

First, That the most important object in paying off debts, is to get quit of those due to strangers.

Secondly, That whatever circumstance has a tendency towards diminishing the burden of foreign debts, should be encouraged.

If it be said, that whenever our foreign debts exceed the balance of our trade, the best way would be to break faith with strangers, and keep it with the subjects of the state: I answer, that were the thing possible, which I apprehend it is not, the consequence might prove equally hurtful.

The greatest of all the inconveniences proceeding from a bankruptcy, is the ruin of industry, and the stop put to circulation. Can it then be supposed, that a country might execute so glaring a scheme of treachery to all her neighbours, and still continue her correspondence with them in the open way of trade? Certainly not. Were all foreign trade to be stopt at once, what a revolution would it occasion! The circulation of foreign trade, in the city of London only, exceeds perhaps the amount of all the taxes. A stop put to this would occasion such a stagnation, as would ruin the nation as much as if the bankruptcy were to become universal. I do not here pretend minutely to trace consequences, which are finite: all that can be done, is to suggest hints, which every one may pursue, in proportion to the extent of his combinations.

The intention of touching upon this subject at all, is to shew, that the expedient of a sponge, which is frequently talked of as a remedy against the consequence of debts, is, perhaps, more dangerous than any thing which can be apprehended from them. The reason is, that the sponge implies a more sudden bankruptcy than any one brought on in a gradual way, by natural causes.

Were natural and irresistible causes totally to cut off all profit upon the trade of Britain, one cannot say how far the other nations of Europe might not find it their interest to assist us, provided we did our utmost to preserve our good faith to them. And as I think I have made it sufficiently evident that nothing can be gained by openly violating public faith, the best resolution a nation can take, is to adhere to it to the last extremity, and to banish from their thoughts every idea which may be repugnant to it.

Chap. X

Methods of contracting and paying off public Debts

We are now to collect together, in one view, the several methods of contracting and paying off the debts of a nation. Such methods may be deduced, either from principles, or from what practice has pointed out.

The foundation upon which public credit is built, is the existence of a sure and sufficient fund for performing the engagements contracted.

When, in the early times of public credit, the repayment of the capital was an express condition of the loan, a much more extensive public fund was necessary than at present, when no more
is required than the payment of the interest. As such funds never
can be formed but from taxes, or general contributions from the
people, the greater they are, the larger must the contribution
be. Whenever therefore there is occasion to contact debt, the
chief object of a statesman's care should be, to model the spirit
of his people so as to dispose them to concur in the proper
resolutions to render the plan proposed as easy as possible in
the execution.

In the first place, the body of the people must be made
sensible that the consequence of contacting debts must imply a
diminution upon the income of some individuals; but that the
fewer the obstacles thrown in the way of the loan are, the less
will this diminution be.

In the second place, he must gain the confidence of his
people, so far as to impress them with a firm belief that he will
consult their good, and nothing else, in what he undertakes.

And in the last place, he must gain the confidence of those
from whom he is to borrow; and convince them that all covenants
between the public and them will be religiously performed.

In a limited and free government, these three requisites are
essential to the firm establishment of public credit.

Where the power of the statesman is unlimited, he may
substitute his authority over the people who are to pay, instead
of confidence; but with respect to those who are to lend, he will
find no room for any such substitution: confidence here is the
only expedient.

All therefore that is required of the statesman with respect
to the people, is to enable them to do what he requires of them.

For this purpose he must establish credit with them, for
finding the contributions he is to exact of them; because they
will have as much occasion for credit, in paying what is demanded
of them by authority, as he himself has in paying what he is
obliged to pay, in consequence of his engagements.

If this general plan be not followed, the consequence will
be, that the produce of taxes will fail on one hand, and public
credit on the other.

If all this operation cannot be previously concerted, the
plan of borrowing must be circumscribed to funds previously
established.

When money is borrowed before the fund be prepared, every
obstacle which occurs in establishing it, becomes a drawback upon
the confidence of those who lend, and renders the conditions less
favourable to the state which borrows.

In the contract of loan, the first article to be agreed upon
is the rate of interest. We have, in the beginning of this book,
examined the causes of its rise and fall; and have in general
determined, that when the demand is for borrowing, interest
rises; when for lending, interest falls.

As the object of the borrower is to have interest low, the
statesman who intends to borrow, must use all possible means to
increase the quantity of money in circulation.

But if coin alone be used as money, and if this coin be sent
out of the country, when borrowed, and if what is sent away
cannot be replaced at will, the scheme of augmenting money
becomes impracticable: it will daily become more scarce, more
difficult to procure, and interest must rise higher every day.
Symbolical or paper money, that is credit, must then be
established at home, upon the firmest basis: this will enable
every one to pay what he owes; consequently, the taxes will be
paid, the creditors will receive what is due to them regularly,
money will every year augment in proportion as debts are
contracted; and if borrowing do not augment beyond this proportion, interest will not rise; and if borrowing should fall below this proportion, interest will sink.

Is not this whole doctrine verified in the strongest manner by the operation of the Missisippi? At the death of the late King of France, money had disappeared. Some years before, he had, for seven millions in coin, engaged his kingdom for thirty-two millions; upon a distant fund indeed, but still it became a debt to be paid. Paper money had not been introduced three years, when interest fell to 2 per cent. The paper indeed was actually a bubble; but we have shewn that it became so from bad management only.

By the augmentation of money, capitals cease to be so valuable. By the melting down of property, the very capital, though in the hands of the state, may be turned into money by the creditor, whenever he has occasion for it; in the same way as the coin which is buried in the vaults of the town-house of Amsterdam, is constantly performing all the uses of circulation.

The method, therefore, of borrowing money to the best advantage, is previously to establish a fund of credit, arising from annual taxes; to provide the people who are to pay them, with credit or money in proportion to their property or industry; and to prevent the latter from ever failing for want of the medium, money, for caring it on.

If in time of peace interest shall stand high, relatively to other states with which you are at war, throw as much money as possible into the hands of your creditors, in payment of the debts already contracted; because the more you throw in there, the more you will draw out, if you have occasion to borrow more; and if you have no occasion to borrow more, the lower you will reduce the rate of interest, by augmenting the fund of money to be lent.

From these principles I conclude, that every nation which sets out by contracting debts with its own citizens, must begin by borrowing upon condition of repaying the capital in a short term of years. This is also the best method to engage the people to contribute largely without murmuring. The reason is, that when taxes begin to be imposed, the mass of circulation becomes proportionally augmented; and the paying back of considerable sums to the creditors, prevents, on the one hand, the debts from increasing so fast, and supplies circulation and facilitates new borrowings on the other. While this plan of augmenting circulation is carrying on, the statesman must prevent his expence abroad from diminishing circulation proportionally at home. This is to be accomplished by opening loans for foreign expence in foreign countries, and by paying the interest only of such loans, with the greatest punctuality.

The difficulty of performing this, is no argument against it. It must either be done, or credit will be hurt; because without obtaining credit abroad, it is impossible to defray any expence incurred abroad, beyond what the metals of your country and the exports from it can pay: that is, in other words, beyond the quantity of metals exported, and general balance in your favour upon all reciprocal payments with the world.

If it be said, that nations never pay the interest of their debts any where but at home, I answer, that it is so much the worse for them; because wherever the debts or interest is to be paid, the lender always states his account as if the payment were made in his own house. All the expence to him of sending his money to the place of subscription, and of drawing back his returns, are compared with the interest offered by the borrower;
and if upon the whole the lender find his account in the bargain, he subscribes; otherwise not. Since therefore the money borrowed must in this case be sent abroad, it is an advantage for the borrower to be under an obligation to provide a method of sending it; and by this means he will borrow cheaper than he can do, when he refunds to every lender all his expence and trouble in getting his interest remitted to him.

I am now deducing principles, and therefore shall not enter into a discussion of the many objections which occur against this plan, from foreign considerations; such as the facility it might procure to a statesman in defrauding his foreign creditors, and several others which might be formed: all I say is, that this is a cheaper and more systematical way of borrowing, and it has this good effect, that it constantly points out the state of the external debt, from which alone a bankruptcy is to be feared.

Were a favourable balance to return after an expensive war, the payment of this foreign debt would be the consequence then, as much as now when the payment is made at home, and rather more so; because who ever owed a balance (to England, I suppose) would then pay his debts at London, with money due by England, payable at Antwerp, for example; consequently, he would remit at discount; and when he remitted in favour of an Englishman, the debts might be considered as discharged upon the foreign fund, and stated anew upon the funds payable in London. Could the payment of the interest of the public debts be rendered susceptible of such transfers upon all occasions, it would, I imagine, have a remarkable effect in favour of public credit.

This thought suggested itself, while I was considering the situation of a country where borrowing is in its infancy; and it occurred as an expedient for preventing foreign expense from draining the country of the money necessary for circulation at home. This, in every combination of circumstances, is the most important object of a statesman’s care, while he is engaged in wars abroad.

Now whether the money of a country be paper or coin, it is equally taken out of circulation, by every foreign payment. When it is coin, it goes out of the country, as well as out of circulation: when it is paper, it does not go out of the country, certainly, but by coming upon the debtor in it for payment, it is equally taken out of circulation; and what the debtor gives for it (viz. a bill of exchange upon another country) goes out of the country. And unless this bill of exchange can be paid with value exported in merchandize, it will remain a debt upon the country, contracted in favour of some other nation.

This I hope will be sufficient to recall to mind what has been so fully explained in the 13th chapter upon banks; where the same question was stated with regard to the payments Scotland was obliged to make to England, towards the end of the last war. The same principles operate in the case before us, and may be applied to every circumstance of it; with this difference only, that here the statesman’s interest is supposed to be more closely connected with that of his banks than was the case during the distress in Scotland: because if he do not support them by a systematical chain of conduct, he will drain the fund of circulation by his remittances; his credit will fail; his taxes will no more be paid; and his people will be oppressed. But if he pursue his plan systematically, circulation will be kept full; his credit will be supported; his taxes will be paid; his people will be easy: because no check will be put either to their industry or consumption for want of money; a great part of the solid property will be melted down into money; whatever part of this money is
lent to the state will be, by that operation, consolidated into a new species of property, the public funds; and if, after the borrowing scheme is over (that is, when peace is restored) circulation should be contracted, a part of the money will then stagnate in the hands of individuals, and will, in their favour, be realized in that part of the solid property which was formerly melted down in order to produce it. That is, lands will be sold by the former proprietors, and will be acquired by those who have money not realized in stock; and for which money, circulation has no farther demand. This is the reason why, at the end of every war which has run the nation in debt, lands have constantly risen in their value, even when considerable quantities of them have been offered to sale.

If it be said that the stock-holders are those whom we commonly see buying the lands, and not those who have sums not realized:

I shall, in answer, observe, that the stock-holders cannot buy lands unless they sell their stock, to those who have money not realized; so it is still the money not realized which is employed in buying every article of solid property; and even after this operation, the same money will still remain in circulation as before; because it is impossible to realize even paper money itself, except when the creditor in it becomes proprietor of the property upon which it is secured; and if the money be coin, it is plain that this cannot be realized any farther than it is by nature. When therefore we say, that a man realizes his money, we do not mean any thing farther, than that he gives his money to another in exchange for solid property. Thus when an estate is bought in a country where banks upon mortgage are established, a part of the price is commonly taken out of circulation altogether; because in consequence of the price paid, the bank is refunded what it had melted down of the land sold; consequently, this paper becomes consolidated a-new, as it were, with the lands which are relieved of the mortgage.

But when lands are sold in a country where there is no paper, the price remains in circulation as before; and if the quantity of coin in circulation should exceed the uses for it, a case which seldom happens in these days, it would be exported, and realized abroad.

When this complicated and systematical scheme of credit is not established, the fallible consequence is, that money disappears: consequently, interest rises. The taxes formerly imposed cannot be paid: consequently, it is in vain to seek to augment them; because in proportion as they are augmented, they become less productive. If money be borrowed upon remote funds, engaged for other debts previously contracted, and if public faith be at all events to be preserved, the consequence must then be, that the public will be eat up by usurers.

This was the case in England during the wars of Queen Anne. So early as 1706, government, as has been said, began to borrow at 6 per cent upon funds already engaged. What was the consequence? The exchequer having no money to pay the interest as it fell due, paid with tallies; these fell to great discount, and had they remained long in that discredited situation, lending would have stoped, or interest would have risen, as in France, so high as to lose the name of interest altogether. This was the case, in the example above cited, when seven millions ready money, borrowed by the late king of France, became a debt of thirty-two millions on the state.

Upon the occasion above mentioned, government availed themselves of the bank of England, as I say every private citizen
should have a power to do, on every occasion, when his credit is good, though money should fail him. They engaged the bank to
discount all tallies issued for the interest of debts; that is,
in other words, to turn those sticks into money: but as public
credit was so low that money could not be found to discharge even
the interest of the advance made by the bank, the government
consented, that all advances of that kind should bear compound
interest quarterly, at 6 per cent. What a monstrous profit to the
bank! what a charge upon the state! Had a bank of circulation
upon mortgages been established at that time, money would have
come in at a moderate simple interest to individuals, who would
have availed themselves of them, for the payment of all public
burdens. Instead of which, industry was made to suffer the
public money did not come in; taxation stopt; expences went on,
and deficiencies were paid by the public at this monstrous
charge.

On the other hand, had it not been for the assistance the
bank then gave the state, in circulating those exchequer tallies,
bills, &c. it is very certain that credit would have failed as
totally in England as it had done in France in 1708, when
Desmaretz undertook the finances. This minister had no bank to
avail himself of, and accordingly he run France in debt at the
rate of two hundred millions of livres per annum, during seven
campaigns; of which, I am persuaded, he did not receive one half,
or near it, in effective value.

What I have said will, I hope, be sufficient to shew that the
only way for any state to borrow, is previously to provide a fund
for making good what is agreed upon with the lenders; and that
all expedients to supply the want of it will in the end bring
great expence upon the people, either by involving them in an
excessive burden of debts, in case public engagements should be
held sacred, as has constantly been the case in Great Britain; or
by driving the state to a bankruptcy, as was the case in France
upon the death of the late King. I call it a bankruptcy, because
all that was owing was not paid. A man who pays no more than 19s.
11 3/4d. in the pound, is a bankrupt, as well as he who cannot
pay one farthing.

I come next to the methods of paying off debts when already
contracted.

Public debts may be divided into two classes, redeemable and
irredeemable. Redeemable debts may be paid off in several ways,
which we shall briefly enumerate before we compare their several
advantages.

First then, such debts may be paid off at once, by refunding
to the creditors the whole capital, with all arrears of interest.
Secondly, They may be paid off yearly, according to a certain
rule to determine the preference, and order of payment: for this
purpose, a determinate sum must be set apart as a sinking fund
for discharging the capital and interest.

Thirdly, They may be paid off cumulatively and proportionally
every year, by incorporating the sinking fund into the money
appropriated for discharging the interest, and by placing all
that is paid beyond the interest, as payment in part of the
capital.

Fourthly, They may be paid in one sense, as shall be farther
explained by reducing the interest upon the capitals, without
diminishing them.

Fifthly, They may be paid off by converting them into
annuities for lives.

Sixthly, And lastly, they may be paid off below the value of
the capitals, by the means of lotteries; where the state may gain
what the creditors choose to lose from a desire of gaming.

To one or other of these methods, may be reduced all the fair
and honest expedients which a state may employ to get rid of its
debts, without any breach of public faith, or without proceeding
to the extremity of prescribing conditions of payment, which the
creditors are forced to accept against their will.

As for the irredeemable debts, I apprehend, that, without
consent of the creditors, no change upon the condition of loan
can justly be made.

I shall next point out the advantages and disadvantages of
the several methods of discharging debts, as they may affect the
separate, or cumulative interest of a state.

Were large debts which have subsisted for a long time to be
paid off all at once, it would occasion a sudden and a violent
revolution, which is always attended with inconveniences.

Were, for example, the proprietors of lands to consent to
sell off a part of their estates for the payment of the public
debts, the quantity of land brought to market, would sink the
price of it very considerably; from which would arise a great
detriment to landlords. I shall not here inquire from whence such
a sum of money could come; that it may be produced is very
possible, from what happened in France in the year 1720.

Could a treasure be brought from India (let me suppose)
sufficient at once to discharge the debts of Great Britain,
circulation would become so glutted with money, that interest
would fall to nothing. This would be a temporary loss to all the
former creditors, until they had time to lend to the other states
of Europe; who would, in consequence of this circumstance, sink
the rate of interest upon their own debts. Something like this
was the consequence of paying off all the debts of France with
bank notes in 1720, upon which interest fell, as we have observed
above, to 2 per cent.

When, in the second place, debts are paid off partially every
year, according to a certain rule, it is expedient to have the
capitals reduced into shares of a determinate value, as is the
practice in France, that they may be drawn out as in a lottery.
The lots drawn may then be paid, and no detriment will follow to
any particular creditor, more than to another. because if by
being paid there be either profit or loss to the creditor, it
will affect the value of the whole stock in proportion. If, upon
the establishment of such a plan, the stock be found to rise, it
will be a proof that either the interest formerly paid was below
the common rate, or that the credit of the state was looked upon
as precarious: if it should sink, contrary conclusions may safely
be drawn.

This is a common method of paying off debts in France, where
funds are more commonly divided into shares than in Great
Britain.

In 1759, the King opened a subscription for seventy-two
millions of livres upon the general farms: this sum was divided
into seventy-two thousand actions, bearing 5 per cent and it was
stipulated, that upon the renewal of the farms in 1762, twelve
thousand actions should be drawn by lot, and paid off monthly; so
that in six months the whole debt was to be discharged. The third
method of applying what is annually paid above the interest, in
extinction of the capital, is the measure proposed by Cardinal de
Richelieu for discharging the debts of France. only the Cardinal
went to work in a very arbitrary way, both in determining the
interest, and in fixing a value upon the capital, equally
detrimental to the creditors.

To apply this to an example. Had England at the time
government first established a sinking fund, arising out of the savings which were made upon reducing the rate of interest, from time to time, continued to pay to the creditors the same annual sums as formerly; and thereby applied what was paid beyond the interest, to the payment of the capital, there could not have been any misapplication of the sinking fund; and the debts by this time would have been greatly diminished. Whereas by applying the sinking fund to the service of the year, for the ease of the people and advantage to the creditors, the consequences may prove exceedingly inconvenient.

The fourth method of reducing debts is that adopted by Great Britain, viz. by reducing the interest paid upon them. From this we discover the reason why taxes, even in time of war, are seldom augmented in this kingdom much above the proportion of the interest of the money borrowed.

We have, in the second chapter of the first book, boldly declared this to be against principles, and the authors of such a scheme were there stigmatized as men of no foresight: we now see how much people may be mistaken in their conclusions in political matters, when they are formed upon too narrow combinations.

Were capitals intended ever to be paid, no doubt the conclusion would be just; but if it be resolved, that capitals shall never be considered as the object of attention, and that the interest alone shall be looked upon as the real burden, then all payment of capitals is unnecessary, except so far as by paying a part of them, it may serve to reduce the interest upon the rest, by making money regorge in the market beyond the uses found for it.

This plan cannot be carried on while a nation is engaged in an expensive war, which absorbs all the money to be lent: but it becomes the object of a statesman's care, after peace is restored, and when trade begins to bring in a balance upon exportations.

We have seen how this balance tends every year to diminish the capitals due to strangers, and to keep money at home. Then is the time to extend taxation beyond the uses found for money to pay the interest. Two or three millions extraordinary, raised at the close of a war, and thrown into the hands of the creditors of Great Britain, in extinction of their capitals, would soon engage them to cry for mercy. They would find no outlet but France for such sums; and it is precisely after a war, that France is busy in playing off the arbitrary operations on her debts, which reduces her credit too low for any one to trust her with money. Let peace continue for a tract of years, confidence will there advance apace, and then it will become more difficult to make money regorge in England.

To say that taxes are already beyond all bounds, is, in other words, to say the nation is no more in a state of defence: because, should Britain be again involved in an unavoidable war, the consequence will be, either to render more taxes indispensable, or to oblige the nation to submit to any terms demanded by her enemies.

If it be therefore true, that taxes may still be augmented, the most proper time for augmenting them, is, at the very close of a war; because then every circumstance favours the scheme, as we shall now explain.

We have said above, and experience proves the truth of it, that at the end of a war circulation becomes too full for domestic uses; and that the superfluity of money is realized upon property. This is the consequence of a sudden stop in national expence. Were taxes at such a time augmented, part of this
regorging money would find a vent by the augmentation upon
domestic circulation which taxes would occasion; which
augmentation would circulate into the exchequer, instead of
becoming consolidated with property, as has been said, and coming
into the hands of government, would be poured into those of the
creditors, in payment of part of their capitals. There it would
regorge anew; because it is observed, in general, that those who
have property in the funds are not apt to squander money when
unexpectedly thrown into their hands; on the contrary, they are
commonly found to live very much within their income. (8*)

But suppose it should not immediately regorge, it would then
increase expence and consumption; consequently, would advance
industry, and render every branch of excise more productive. In
every supposition we can make, public opulence would be
augmented: money would regorge at last; and then the creditors
would come with their application to government to suspend the
reimbursement of capitals, and to accept, in lieu of that, a
diminution upon the interest.

This is the golden opportunity for diminishing the public
burden occasioned by debts; and this method of compassing so
desirable an end, is far preferable to that of compelling
creditors to submit to a diminution, by offering a sudden
reimbursement, which was put in practice in Britain in the year
1749, as has been observed. Had the public waited with patience
one year longer, and then thrown in a few millions more than they
did into the hands of the creditors, the proposal of reducing the
interest would have come from the other quarter; which in all
bargains with creditors is of the greatest consequence to the
debtor.

The sum of interest thus diminished, upon an obligation to
suspend the reimbursements of capitals for a limited time, three
questions will naturally occur: 1. Whether the taxes should be
diminished in proportion: or 2. If they should be allowed to
subsist with a view to apply the overplus of them to national
purposes: or 3. Whether it may not be most adviseable to turn
such a part of the debts into annuities for lives, as may absorb
the saving upon the former interest paid. The first two questions
I reserve for the following book, where they will be fully
examined; the last is the fifth expedient already proposed for
acquiring the public debts. As the nature of it is abundantly
evident, I shall repeat only what I formerly observed, namely,
that this method of establishing a sinking fund, has the
advantage of being less exposed to misapplications than any
other.

The last expedient of paying off capitals, below the original
value, by the means of lotteries, should take place only after
the interest of money is brought so low as to cut off any near
prospect of reducing it still farther.

I shall not pretend to guess at the lowest point to which the
rate of interest may be brought, by the expedients of increasing
money at will, by the means of banks upon mortgage. I have in the
seventh chapter of the first part of this book, thrown out a hint
of a land-bank, which opens a very wide field of speculation; but
in this place, it would be unnecessary to enlarge upon that
subject.

Let me suppose the rate of interest brought lower in Britain
than any where else, it will nevertheless be subject to
periodical risings, on many occasions.

Upon every such emergency, capitals will sink in the market
below par.

It is then only that a state can have recourse to this last
expedient of opening lotteries, and taking in subscriptions at
the market price of the funds subscribed into them. And although the annuities to be paid upon the lottery fund be regulated by
the rate of interest at the time, and consequently above the
standard of the other debts; yet the same methods of reducing it
afterwards will constantly produce their effects, and thereby
diminish the capital by degrees.

In like manner, in time of war, when the public funds fall
greatly in their price, government may open new subscriptions,
and receive payment for them in their own paper at the market
price, allowing a small premium in the rate of interest. If the
creditors willingly subscribe upon these conditions, no violation
of public faith can be alleged. By this operation, the capitals
will be diminished, and the advanced rate of interest paid during
the war, will return upon the peace to where it was: then the new
subscriptions may be paid off, or subscribed for again at a lower
rate than before.

Suppose it then resolved, that in time of war, the nation's
creditors should be allowed, at certain times, to subscribe their
capitals in books opened at the bank for that purpose, one
quarter per cent. above the selling price. Would not this have
the good effect of supporting the price of stocks on one hand,
and of reducing the capital of the national debt upon the other?
Example:

Let me suppose that in time of war, the 3 per cents. sell at
74 3/4, might not government receive them at 75, and constitute
the new subscription at 4 per cent? What interest could any one
have not to subscribe, who at such a time intends to sell his
stock? His 3 per cent sold to government at 75, and turned into a
4 per cent. would afterwards, when sold in the market, produce
1/4 per cent more than if it had not been subscribed into the new
fund.

Perhaps in Change Alley, where calculation is carried to the
utmost pitch of refinement, even this eventual advantage to
government might sink the value of the new 4 per cents. Let this
be allowed. The answer is, that when people compute with such
nicely, and comprehend in their calculations every circumstance
the most minute, it is, I think, the interest of a state (whose
views should extend far beyond the period of human life) to grant
a premium upon such subscriptions more than sufficient to
indenmify the subscribers, according to the most rigid
calculation concerning their present advantage.

The smallest profit to be discovered by the nicest pen will
engage the monied man to subscribe; consequently, the capitals of
debts may be diminished, at a loss to the public almost
imperceptible. And for this imperceptible loss in the mean time,
the greatest national advantage may be obtained at a distant
period.

It is now full time to close this book, which has swelled far
beyond its due proportion. The subject of credit and debts is so
connected with many questions relating to taxes, and to the
application of their amount, that the unity of the subject would
have suffered little in blending them together. But as I find it
to be a great relief to the memory to interpose, now and then, a
pause; and as taxes were intended to be treated of by themselves,
according to the plan I at first proposed, I shall make no
alteration in it.

At the end of the first and second books, I subjoined a
chapter of recapitulation; in the third book, this was supplied
by a very full table of contents; here, because of the intimate
connection of the subject of this and the following book, I shall
refer the reader to the end of the volume, for a full recapitulation of both.

NOTES:

1. After the long and particular account I have given of the Mississippi, I shall not enter into a like detail concerning a scheme which proceeded upon the very same principles; to wit, the artificially raising the value of a stock, by promising dividends, out of funds which were nowise proportioned to them.

I shall therefore, in a very few words, first compare some of the operations of the South Sea scheme with those of the Mississippi; and in doing it, point out the principal differences between them.

The great profits upon the Mississippi were expected from the interest paid by government for the great loan, from the farms of the revenue, and from the profits upon their trade.

Those of the South Sea were, at setting out, first, The profits upon their trade: secondly, The allowance made them by government for the expence of management: thirdly, The difference of receiving 5 per cent for the money they laid out in purchasing the public debts, when money was at 4 per cent as it was when the scheme was set on foot: and fourthly, The surplus money subscribed into the stock above par, in consequence of the artifices used to enhance the value of it.

The seven millions they were to pay to the state, seemingly for no value received were a sort of compensation for receiving the 5 per cent for 7 years, at a time when money was worth no more than 4 per cent.

These advantages raised, at first, the value of the original stock of eleven millions. The consequence was, that the proprietors of the 16 millions of the redeemable debts, which were to be bought in, when they came to subscribe their capitals into the new stock, transacted them at a proportional discount; which discount, being good against the government in favour of the company, served to discharge proportionally the seven millions the company was to pay. This gave an additional value to the stock; and so it rose, greatly indeed above this proportion.

Then the company promised a dividend of 10 per cent for one half year, upon their capital, at midsummer 1720; this dividend was to be paid in stock, which was constantly rising in its value; but no information was ever given to the public concerning the funds which were to produce this dividend; so every one concluded that there were hidden treasures in the hands of the company which enabled it to promise such large dividends. Accordingly, stock rose from 300 per cent to 375; then to 400, and at last to 1000 per cent; and in proportion as it rose, the wealth of the former subscribers augmented from the surplus above par, paid by the latter, and those who subscribed last, bore all the loss upon the blowing up of the scheme.

But one great difference between the South Sea and Mississippi, was this: That in France there was abundance of money in the hands of the public, for purchasing the actions, at the exorbitant price to which they rose; but in England there was not: consequently, in France, the rate of interest fell to 2 per cent and in England, the great demand for money to borrow, raised it beyond all bounds.

Those who subscribed in money, paid down no more than 10 per cent at subscribing; but became bound to pay up the remainder. But when the stock tumbled, people were better pleased to lose the 10 per cent they had paid, than to pay up the remaining 90
per cent according to the terms at subscribing. Those indeed who subscribed their former capitals at a vast discount, did not labour under the same inconvenience for want of money; but this discount became as real a loss to them, as the cash subscribed became a loss to the money subscribers, the moment that those who were in the secret, and who, by the most infamous chain of artifices, had blown up the public frenzy, began to realize and sell out, and that the whole was discovered to be a cheat. So that upon the whole, the English scheme had intrinsically a much worse foundation than the French. The first blew up from an absolute necessity, and for want of any bottom at all; the last from misconduct, and rather from folly than knavery. I return to an account of the scheme.

The original capital of the South Sea company, was 11,750,000 l. The redeemable debts which the proprietors of this capital afterwards proposed to purchase, amounted to 16,750,000 l.; and the value of the irredeemable, or what were called the absolute terms, was computed at 15,058,000 l. together 31,808,000 l. sterling.

The proprietors of this original capital of 11,750,000 l. consulted their own advantage only, in purchasing in this large sum of debts, which were to be converted into additional stock; and therefore sounded very high the great advantages of such a transformation of them; first, From the profits of the trade, which they were to enjoy exclusively. And, secondly, From the great addition to their wealth, from the constant rising in the price of their stock. They carried their views to nothing less than obtaining a majority in the house of commons, by the weight of their wealth, and of becoming the absolute rulers of the nation.

The public being from the beginning intoxicated with such ideas, subscriptions for stock were opened at 200 per cent above par; and some of the proprietors of the 31,808,000 l. subscribed at first their capitals at a proportional discount; that is, they made over a debt of 100 l. for 33 1/3 in South Sea stock; and successively the subscription rose to 1000 per cent. These immense profits being incorporated into the gains of the general stock, were proportionally shared by the subscribers themselves, who became proprietors; and the higher the stock rose, the more these gains augmented. This influenced the infatuation; and the dividends augmenting in proportion to the price of subscription, there appeared no end of the rising of the stock.

The first dividend offered, as has been said, was 10 per cent half-yearly in stock; this was afterwards converted into no less than 30 per cent in money, for that half-year: and when stock rose to 1000, a dividend of no less than 50 per cent per annum, in money, was promised for twelve years to come.

Had stock risen to 2000 per cent the dividend could have as easily been carried to 100 per cent per annum, as it had been to 50 per cent when at 1000.

But whence was this dividend to be paid? The company and the directors took good care never to give to the public any light as to this particular.

To prevent, therefore, such abuses in the rising of the South Sea, it ought to have been provided by parliament, that in taking in subscriptions, and offering dividends, the directors should, on the one hand, have informed the public, first, Of the money owing to them by government, secondly, Of the money gained by the subscriptions above par. And thirdly, Of the profits upon their trade. And, on the other hand, of the debts due by them; and of the nett balance upon their books, in their favour.
This would have been fair dealing. But to pretend the necessity of secrecy, in a point where a nation is interested, was in itself a mere pretext; and had it been otherwise, it might have been answered, that a company which is obliged to have recourse to such secrets, ought to be prevented from dealing with those who were to remain ignorant of them, however deeply interested.

2. This may seem a high valuation, and is, in fact, far beyond what any of those annuities sold for: but as the interest of money cannot be estimated, for a constancy, at more than 3 per cent and that probably the best lives were chosen, the value to government of such annuities may well be estimated at 20 years purchase. By De Moivre's tables, annuities for the most favourable ages, interest being at 3 per cent are valued at 19.87 years purchase; and his valuations are generally allowed not to be too high.

3. The annuities of 1757, are estimated, by the author of the Consideration on Trade and Finances, at 472,500 l. or at 14 years' purchase; and the annuities of 1761, 1762, at 6,826,875 l. or at 27 1/2 years' purchase. But this valuation seems too low.

4. This question has been determined in the affirmative, in a pamphlet ascribed to Mr G. Grenville, entitled, The Present State of the Nation, an. 1768: page 12 in the note.

5. I find that the sinking fund is now estimated at 2,100,000 l. by the author of the Considerations on Trade, etc. above cited. I am also informed that the net produce of the customs exceeds 2,200,000 l. considerably: but 4,600,000 l. is rather the gross than the net produce of the permanent duties of excise; that is, of all the excise duties, excepting the annual malt-duty. It must also be observed, that the annuities payable to the national creditors amounted, the 5th January 1764, to more than 4,720,000 l. But on the other hand, the interest of the unfunded 9 millions is rated too high, as appears from the author above quoted. I cannot pretend to give exact details. The general sketch here stated is sufficient for my purpose.

6. The loan of 1766, was 1,500,000 l. at 3 per cent. Every subscriber for 100 l. had an annuity of 3 per cent on 60 l. and 4 lottery tickets, valued to them by government at 10 l. each, in all 100 l. The prizes and blanks in the lottery amount to 600,000 l. and bear 3 per cent paid by government. The annuities amount to 900,000 l. and bear also 3 per cent. The number of tickets are 60,000. Hence at 10 l. each, they amount to 600,000 l.

   The advantage government reaps by this way of borrowing, is, that the desire of gaming, raises the lottery tickets above their value, when thrown into the hands of the public; and this advanced value being a profit to those who receive them in part of their subscription, this profit they share with government. Example. In April 1766, when government borrowed 1,500,000 l. at 3 per cent, the 3 per cents were at 89: consequently, the difference between 89 and 100, which is 11 l. must have been supposed to be the sum which the subscribers, from the propensity of people to game, had a reasonable, or rather a certain expectation of gaining upon the sale of 4 lottery tickets, that is, 2 l. 15s. upon every one.

   To know therefore the real par of a lottery ticket, you must proceed thus: it costs the subscribers 10 l. for which they receive from government 3 per cent. This 10 l. as 3 per cents
stood at 89, is worth at that rate no more than 8 l. 18s. Add to this sum what the public must pay for the liberty to play, which we have stated above at 2 l. 15s. and you have the exact par of a lottery ticket at 11 l. 13s.

Whatever they sell at above 11 l. 13s. is profit to the subscribers, whatever they sell below 11 l. 13s. is a loss to them.

This profit though small in appearance, is greatly increased from another circumstance, viz.

That the subscribers may sell their subscriptions at a time when they have really advanced but a small part of it. The first payment is commonly of 15 per cent on their subscription: when they sell, they make this profit upon the whole capital. Suppose then 15 per cent paid in: if the profit upon selling be no more than 1 per cent upon the capital, that 1 per cent turns out no less than 6 2/3 per cent upon the money they have advanced. Thus a person who is possessed of 1500 l. only, may subscribe for 10,000 l. in this loan: he pays in his 1500 l. and receives his subscription; when he sells, he sells 10,000 l. subscription, upon which he gains 1 per cent, 1 per cent. of 10,000 l. is 100 l. so (in one month suppose) he gains by this means 100 l. for the use of 1500 l. But as a counterbalance for this profit, he runs the risk of the falling of the subscription, which involves him in a proportional loss if he sells out; or in the inconvenience of advancing more money than he had to employ in that way, in case he should prefer keeping his subscription for a longer time, in hopes of a rise in the public funds. By this mode of borrowing, government profits by the disposition of the people to game. But this propensity has its bounds, and at present it is found by experience not to exceed 60,000 lottery tickets, or 60,000 l. Were, therefore, a subscription of 3 millions taken in upon the same plan with the present of 1,500,000 l. the regorging number of tickets would so glut the market, that the whole would fall below the par of their supposed value.

7. We must always carefully avoid confounding the grand balance of payments with the balance between importation and exportation, which I consider as the balance of trade.

8. Experience shews, that when the debts of a nation have come to a height, the public creditors become people of great consequence, upon account of the ease and affluence of their circumstances. They are not exposed to the many hidden expences incident to land proprietors. They are a class in the state but lately known; the capital of their wealth is hidden; and opinions concerning their rank, and the figure they ought to make, are as yet unformed. Whereas the family of a land proprietor is known; his expence may surpass that of his predecessors without much observation; but if it should fall below it, he commonly sinks in the estimation of his neighbours, who seldom put circumstances together which can only be guessed at. An heir to a landed estate, is bred up from his infancy with the notion of living like his father: the son of a monied man has commonly very different sentiments; and even when any of this class takes a turn to expence, the lustre of it is all displayed round his own body; that is, in his own house, and in his own family: no country seats, hounds, horses, servants in every quarter, family interest to keep up, little economy in spending. In a word, every one feels better than I can describe that landed men commonly exceed, and monied men commonly live within their income.
An Inquiry into the Principles of Political Economy

Book V

Of Taxes, and of the Proper Application of their Amount

Introduction

The subject of taxes is so closely connected with every branch of political oeconomy, that I have not been able to avoid anticipating a subject, which, according to my plan, is left for the conclusion of this work.

What has been hitherto introduced concerning taxation, in treating of industry, trade, money, credit, and debts, relates principally to the effects of taxes upon circulation, prices, and several other things relating to those subjects.

What therefore remains, not as yet touched upon, chiefly concerns the principles which determine the nature of every tax, relatively to the interest it is intended to affect.

To investigate the different consequences of taxes when imposed upon possessions, and when upon consumption, are questions which relate directly to the principles of taxation. But in this book I shall also have occasion to trace out, farther than as yet I have done, certain combinations concerning the effects which taxes have in multiplying the fund of circulation: and as the augmentation of taxes tends greatly to increase money, I am thence led to examine, how far the advantage gained by the suppression of taxes may not be more than compensated to a nation, by the inconveniences proceeding from so great a diminution of circulation.

Taxes have all along been supposed to enhance the price of living; we shall therefore have an opportunity of investigating the proper extent to be allowed to that general proposition.

Chap. I

Of the different Kinds of Taxes

Taxes have been established in all ages of the world, under different names of tribute, tithe, tally, impost, duty, gabel, custom, subsidy, excise; and many others needless to recapitulate, and foreign to my subject to examine.

Though in every species of this voluminous class, there are certain characteristic differences; yet one principle prevails in all, upon which the definition may be founded.

I understand therefore by tax, in its most general acceptation, a certain contribution of fruits, service, or money, imposed upon the individuals of a state, by the act or consent of the legislature, in order to defray the expences of government.

This definition may, I think, include, in general, all kinds of burdens which can possibly be imposed. By fruits are understood either those of the earth, of animals, or of man himself. By service, whatever man can either by labour or ingenuity produce, while he himself remains free. And under money is comprehended the equivalent given for what may be exacted in the other two ways.

I have no occasion to consider the nature of such taxes as are not in use in our days. Tributes of slaves from conquered nations are as little known in our times, as contributions of
subsistence from the subjects of the state.
I divide, therefore, modern taxes into three classes.
1. Those upon alienation, which I call proportional: 2. Those upon possessions, which I call cumulative or arbitrary: and 3. Those exacted in service, which I call personal. These terms must now be fully explained, that I may use them hereafter without being misunderstood.

A proportional tax presents a simple notion.
It is paid by the buyer, who intends to consume, at the time of the consumption, while the balance of wealth is turning against him; and is consolidated with the price of the commodity.
Examples of this tax are all excises, customs, stamp-duties, postage, coinage, and the like.

By this definition, two requisites are necessary for fixing the tax upon any one: first, he must be a buyer; secondly, he must be a consumer. Let this be retained.

A cumulative or arbitrary tax, presents various ideas at first sight, and cannot well be defined until the nature of it has been illustrated by examples.

It may be known, First, By the intention of it; which is to affect the possessor in such a manner, as to make it difficult for him to augment his income, in proportion to the tax he pays.

Secondly, By the object; when instead of being laid upon any determinate piece of labour or article of consumption, it is made to affect past and not present gains.

Thirdly, by the circumstances under which it is levied; which imply no transition of property from hand to hand, nor any change in the balance of wealth between individuals.
Examples of cumulative taxes are land-taxes, poll-taxes, window-taxes, duties upon coaches and servants, that upon industrie, in France, and many others.

A personal tax is known by its affecting the person, not the purse of those who are laid under it.
Examples of it are the corvée, in France; the six days labour on the high roads, and the militia service before pay was allowed in England.(1*)

Having thus explained what I mean by proportional, cumulative, and personal taxes, it is proper to observe, that however different they may prove in their effects and consequences, they all agree in this, that they ought to impair the fruits and not the fund; the expences of the person taxed, not the savings; the services, not the persons of those who do them.

This holds true in every denomination of taxes. In former days, when annual tributes of slaves were made, and even at present among the Turks, where it is customary to recruit the seraglions of great men by such contributions, I consider the young women who are sent, as part of the fruits of the people who send them. This is a fundamental principle in taxation; and therefore public contributions, which necessarily imply a diminution of any capital, cannot properly be ranged under the head of taxes. Thus when the Dutch contributed, not many years ago, the hundredth part of their property towards the service of the state, I cannot properly consider this in the light of a tax: it was indeed a most public spirited contribution, and did more honour to that people, from the fidelity with which it was made, than any thing of the kind ever boasted of by a modern society.(2*)

Chap. II
Of proportional Taxes, and their proper Object

Whatever exists for the use of man, so far as it is considered as a fund for taxation, may be classed under the following heads: 1. The produce or fruits of the earth; 2. the produce of the industry of man; or 3. his personal service.

Farther, Fruits cannot be obtained without the necessary labour of man and cattle. As this labour presupposes all the necessary consumption of maintenance, &c. the produce of the land must be understood, relatively to taxes, to be that part only of the fruits which remains after deducting an equivalent for all necessary expenses in making the earth produce them. The net produce alone of the earth is to be considered as a fund liable to taxation; and every contribution which bears not a just proportion to this quantity, is wrong imposed, as shall be shewn as we go along.

Again, as to the produce of work: this cannot be brought into existence without some expense, viz. the maintenance of the workman; that is to say, his food, raiment, fire, lodging, and the expense he is at for tools, and every other necessary. This we shall, for the future, call his physical-necessary. The value of the work, over and above an equivalent for these articles, is the only fund to be taxed with regard to the workman.

As to work itself, we have seen above (Book II. chap. 26.) in the general distribution of things which may be purchased with money, how it was ranged under the class of things incorporeal. For this reason, the work performed cannot come under taxation; and therefore the person working, who by work acquires a balance in his favour, is brought to be affected by proportional taxes upon the articles of his consumption; and when it is found that these articles suffer no alienation before they are consumed by him, and consequently escape taxation, then he may either be laid under the cumulative taxes, which will affect his wealth, or under the personal, which are paid in work itself, and in this respect may be considered as the fruit of the man.

Nothing would be so easy as a general rule for imposing proportional taxes, did the labourers of the ground actually consume a part of the fruits of the earth, and the other industrious classes a part of their own work, in lieu of the whole of this physical-necessary. In this case, nothing but what remained of fruits and work, not already consumed by the immediate producers, would come to market for the use of those who do not work; but who have an equivalent to give for it, out of the produce of past industry. Were this, I say, the case, then at the time of alienation (or, as we expressed it in the 26th chapter of the second book, at the time when the balance of wealth is going to turn in favour of the industrious, against the idle consumer) a tax proportional to the value of the alienation might, with the greatest propriety, be imposed, as we shall presently discover.

This, I hope, will recall to mind the principles deduced in the chapter above cited, where we made it appear, how the industrious classes, who furnish consumable commodities for the price of their overplus, must constantly have the balance of wealth turning in their favour: and when once they arrive at a certain degree of ease, proportional to their ambition, then they give over working, and become incorporated into the class of those who have enriched them.

Thus matters go on in a perpetual circle. The industrious become easy, and the public lays the consumers under a perpetual contribution in proportion to their expence.
The hypothesis we have made, is not entirely agreeable to matter of fact; because the operation of taxes is far more complex than we have described it to be; but by simplifying it, as I have done, it serves to give an idea of the result, or general consequence of proportional taxes, which, when properly imposed, do affect the idle only, but never the industrious.

Were, I say, the operation of taxation as simple as we have represented it, nothing would be more easy than to deduce its principles. Nothing would come to be refunded to the labourer or workman, at the sale of his surplus. This surplus would be equal to the whole produce of the earth, and whole industry of the country, deducting the physical-necessary of all the industrious; and this physical-necessary need not then be deducted; because it is supposed to be consumed in the very production of the surplus, as the aqueous part of sea water is consumed before you can have the salt.

This illustrates what has been said, viz. that the fruits of the earth are only to be reckoned to exist, after deducting the necessary expence of providing them. For though in fact a farmer possesses all his crop after harvest, yet part of it, as to him, is virtually consumed either out of his own stock, or that of others, who have furnished him food and necessaries all the time it was coming forward; this part consequently, can neither belong to the ground, or to the farmer.

If it be urged still, that the whole must be supposed to exist with regard to the state, I agree to the proposition; but according to our argument, it cannot be supposed to exist in favour of the state, to the prejudice of the farmer; because the total of the farmer's expence must be understood to have been taken from the surplus of other people's industry, and therefore if the crop be supposed to exist with respect to the state, because it is in the farmer's yard, the surplus of other people's industry which he has consumed must not be supposed to exist in favour of the state, at the same time. But as the farmer is supposed to have paid the tax upon what he has borrowed and consumed, he must draw it back from those who, in their turn, are to consume his crop: and if he draws it back, he cannot be said to pay it, although the state profits of it as much as if he did.

Does it not appear from this analysis, that a state can take gratuitously and proportionally out of the surplus only of fruits and industry? Now what is here called surplus, relatively to the industrious, is the necessary fund of consumption for all the rich and idle; consequently, were the state to diminish any part of the quantity, the idle and the rich would be deprived of a sufficiency: but in regard that those who do not work give money, which is the price of all things, in exchange for what they consume, the state steps in at the time of this exchange, and says, we ask nothing of those who have nothing but their physical-necessary, this they have been allowed to take; we take none of their surplus from them, this we allow them to sell to you: but as for you, who do not work, and have in your coffers wherewithal to purchase the labours of your industrious brethren, this labour you shall not profit of, unless you give the state a certain value out of your wealth, in proportion to the work and fruit you are going to consume, although you have contributed nothing towards the production of it.

Hence it appears evident, that without money there could be no tax imposed: for were the state to take their proportion of the real surplus, and dispose of it out of the country, a part of the inhabitants would be starved. But by an equivalent's being found, quite different from the surplus itself, of no use for
subsistence, the whole produce of industry is left for the use of those who have it; the state takes what part of the equivalent they please from the idle; and nobody starves, except such as have neither money, nor industry, nor the talent of exciting the compassion of the charitable.

By this simple representation of a most complicated operation, I have been able to deduce the capital principle of proportional taxation. If the reasoning be found solid, it may be retained: because we shall have occasion to recur to it, at almost every new combination.

Chap. III

How proportional Taxes are drawn back by the Industrious and how that drawing back is the only reason why Taxes raise the Prices of Commodities

What perplexes our notions in the theory of proportional taxation, is, that the industrious man, instead of bringing his surplus only, to market, is obliged to bring the whole of his work.

Let me therefore represent him as being creditor upon one part of his work, and proprietor of the other. This will divide it, as it were, into two parts, which I shall call (A) and (B).

(A) represents that part upon which he is creditor, and answers to all the expence he has already been at; that is, to his physical-necessary, as we have called it. This we have said ought to be considered as virtually consumed by the workman, and if any tax be raised upon it, it must be done in such a manner as not to affect him; that is, he must draw it totally back from the person to whom he disposes of it. (B) on the other hand, represents that part of which he is proprietor, to wit, his profit; and therefore may either be taxed or not, as the state shall think fit.

If this be taxed in the hands of the industrious man, before it suffer an alienation, the tax will be of a cumulative nature. If it be left free to him, and taxed to the person who buys it, it will be of the proportional kind, as we shall see afterwards. Again, In the first case, it will check the growing wealth of the industrious man; in the second, it will accelerate the dissipation of the buyer.

Taxes, therefore, of the first kind, are proper to be imposed in countries where the state is jealous of growing wealth, as we have observed in the 25th chapter of the second book. If the tax, again, be laid upon the buyer, then the balance will turn in favour of the industrious man, in proportion to the full amount of (B), and will produce no other effect than to accelerate the dissipation of the buyer.

Let us now take in a new combination.

If, when the whole work is brought to market and sold, the price shall not exceed the value of the industrious man's (A), then he is of the class of those we call physical-necessarians, who accumulate no profits. If the price of it be less than (A), he becomes a load upon the state, a bankrupt to those who have fed him upon credit, and will die for want, unless he be supported by charity.

So far with regard to the seller: next as to the buyer.

The buyer appears at market with his money. When he comes there he must give, first, an equivalent for the prime cost of the merchandize: that is, he must refund every expence necessarily incurred in producing it; that is, he must refund the
value of (A). Next, the industrious man has a claim upon him for his profits, viz. his (B). Then comes the state, who claims a part of his wealth, in regard that he is going to purchase what his own industry has not produced. This is the tax; I shall call it (C). This tax will be found of the proportional kind. It will not affect the growing wealth of the seller, but it will accelerate the dissipation of the buyer; and will pull down the scale against him, in favour of the industrious. This is a proper tax, in countries where the state observes the maxim of sharing the wealth of those who dissipate.

Let us now take in another combination. Let us suppose this buyer to be an industrious person, and the thing bought to be a necessary material for the manufacture in which he is employed. It is not plain, that when the second industrious man comes to market to sell his work, which I also suppose to be composed of his (A) and his (B), that his (A) becomes a still more compounded body? It first includes his own physical-necessary, as above: Secondly, the (A) and (B) of the man from whom he bought the materials: and, Thirdly, the (C) which he paid to the state for the liberty of acquiring what he himself had not produced. Whoever therefore buys from the second industrious man, must, in like manner, refund to him his full (A); he must also pay him his (B); and then he will find the state claiming their (C), as in the former operation.

This being done, let us examine the interests of all parties. The first industrious man has no reason to complain of the tax; because he was paid his necessary expense (A), and also his (B) for his profit; and the state realised the tax at the expense of the second industrious man, who paid it. Now we said that the dissipation of his wealth was accelerated in proportion to the value of what he paid for (C); but as he is none of the idle, and as the thing he bought was a material necessary for his manufacture, the second buyer finds himself obliged to refund the whole amount of the first (A), (B), and (C); because the sum of them makes a part of the second man's (A). Now it is the refunding of this (C) to the industrious man which is the only circumstance, from which proceeds the rise in the price of commodities, in consequence of proportional taxes. Moreover, the second buyer must pay the second industrious man's (B), in favour of the balance which is going to turn against him; and last of all, he must pay the second (C), which is the share the state requires of him, in order to accelerate his dissipation.

Now let us observe, that if the commodity bought by the second industrious man, be not necessary for the existence of his manufacture, it cannot enter into his (A), and therefore must be diminished upon his (B); and if his (B) cannot pay it, then he will owe it to some body, and for the future must either abstain from such expenses, or leave off working, in favour of those who can live without them.

Let me illustrate all this by an example.

A tanner sells his leather to a shoemaker; the shoemaker in paying the tanner for his leather, pays the tanner's subsistence and profit, and the tax upon leather. The man who buys the shoes for his own consumption, refunds all this to the shoemaker, together with his subsistence, profit, and the tax upon shoes; consequently, the price of shoes are raised, only by refunding the taxes paid by the industrious. But if the shoemaker's subsistence shall happen to include either tavern expences, or his consumption on idle days, he will not draw these back; because other shoemakers who do not frequent the tavern, and who are not idle, will undersell him; he must
therefore take his extraordinary expence out of his profits; and if his profit be not sufficient, he must run in debt to the tavern-keeper.

The extravagance and idleness, therefore, of particular workmen does not check industry, nor raise prices; for these will always be in proportion to demand, and there is no reason why demand should either rise or fall, because a particular workman is extravagant, or consumes a commodity not necessary for his manufacture or subsistence.

From this example there arises a new combination: that in proportion as the industrious do not consume of the produce of their own industry, but come to market with the whole, and then purchase the work of others, they are considered, as to taxes, in the light of idle consumers, who do not work, but who purchase with money the fruits of the industry of others. By this operation, the taxable fund is augmented beyond the extent of the general surplus called (B). The reason is plain. Whatever is brought to market is supposed to be surplus, as it may there be bought by the idle, as well as the industrious. The only difference is, that the first do not draw back the tax, and that the second do, as we have already shewn.

From this reasoning we may conclude, that the way to carry proportional taxes to their utmost extent, is to draw all commodities to market, to engage every one to carry thither the whole produce of his industry, and there to buy whatever he stands in need of.

But which way will you engage either a farmer to sell his crop, and buy subsistence from another; or a shoemaker to sell his own, and buy his neighbour's shoes? The thing is impracticable; and were it attempted, it would prove an arbitrary proceeding, and a cumulative tax laid upon their industry: a tax which, by the nature of it, they cannot draw back, as we shall presently see, and from this circumstance alone proceeds the whole oppression of it.

Let me next analyze the price paid by the last buyer, whom we have called the rich and idle consumer of the manufacture, who can draw nothing back from any body.

Is it not composed of the whole value of the subsistence, of the work, of the profits, of the tax? The whole reimbursement of all former payments and repayments comes upon him. Those who have been at all the expence, appear in the light of his servants and agents, who have only advanced money upon his account.

How absurd, therefore, is it either to say, that all taxes fall ultimately upon land; or as others, for no better reason, pretend, that they fall upon trade. I say, that this class of taxes which I have now been describing, and which I shall still more fully explain in a subsequent chapter, never can fall either upon, or affect any person but the idle; that is to say, the not industrious consumer. If there be found a possibility for any consumer to draw back the tax he has paid, I say he is of the class of the industrious, in one way or other: and farther I say, that such a tax raises the price of the commodity. But by drawing back, I understand, that the repayment is an inseparable consequence of his having paid the tax. I do not, for example, say that a place-man draws his taxes by the emoluments of his office: but I say a brewer draws back his excise by the sale of his beer.

Let this principle also be retained, that with respect to the consumption of superfluities by the manufacturing classes, they also must be considered as being of the class of the rich and idle, as much as the first Duke in England. When therefore the
extravagance of the manufacturing classes becomes general, and when the rate of the market can afford them great wages, relatively to the price of necessaries, such profits consolidate into the price of the manufacture, according to the principles laid down in the 10th chapter of the second book. The statesman then must endeavour to create a competition among them, by introducing fresh and untainted hands into such branches. This will be a sure check upon the dissipation of the industrious, and, if rightly applied, will prevent all frauds, all pretences for the rise of the price of labour on account of taxes: and, if carried to its full extent, will prevent any industrious person from enjoying either a day's idleness, or the smallest superfluity, except in consequence of his peculiar dexterity, or extrinsic advantages.

Chap. IV

Of cumulative Taxes

I shall not here repeat what I have already said concerning the characteristics of this kind of imposition; but after citing some examples, I shall examine it more closely, as to its nature and consequences.

The most familiar examples of it to an Englishman, are tithes, land-tax, window-tax, and poors-rates.

The most familiar examples to a Frenchman, are the Taille, Fourage, and Ustencil, (which go commonly together); also the Capitation, the Dixieme, the Vingtieme, and the Industrie.(3*)

The nature of all these taxes, is, to affect the possessions, income, and profits of every individual, without putting it in their power to draw them back in any way whatever; consequently, such taxes tend very little towards enhancing the price of commodities.

Those who come under such taxes, do not always consider that their past industry, gains, or advantages of fortune, are here intended to suffer a diminution, in favour of the state; for which out-going they have, perhaps, made no provision.

When people of the lower classes, instead of being subjected to proportional taxes, are laid under such impositions, there results a great inconvenience. They are allowed to receive the whole profit of their industry, which in the former chapter we called their (B), the state however reserving to itself a claim for a part of it: this, instead of being paid gradually, as in a proportional tax, is collected at the end of the year, when they have made no provision for it, and consequently, they are put to distress.

Besides, how hard is it to deprive them of the power of drawing back what they pay? And how ill judged to trust money with those who are supposed to gain only an easy physical-necessary? An equivalent for procuring the articles of ease and luxury, should not be left in the hands of those who are not permitted to enjoy them.

From this we may conclude, First, That the more such taxes are proportional to the subject taxed; Secondly, the more evident this proportion appears; and Thirdly, the more frequently and regularly such taxes are levied; the more they will resemble proportional taxes, and the less burden will be found in paying them. Let me illustrate this by some examples.

The stoppage upon a soldier's pay, either for the invalids, or Chelsea, is a cumulative tax; but the method of levying it gives it all the advantages of one of the proportional kind.
First, it bears an exact and determinate proportion to the value of his pay. Secondly, this proportion he knows perfectly. And thirdly, instead of receiving the whole into his own possession, and paying the hospital at the end of the year, it is regularly and gradually retained from him at every payment.

Tithes are a cumulative tax; but they are accompanied with all the three requisites to make them light; although in other respects they are excessively burdensome. First, they bear an exact proportion to the crop. Secondly, this proportion is perfectly known. Thirdly, nature, and not the labourer, makes the provision. But they fall upon an improper object: they affect the whole produce of the land, and not the surplus; which last is the only fund that ought to be taxed, as has been said.

The land-tax in Scotland bears, first, a very determinate proportion to the valuation of the land; and has, secondly, the advantage of being well known to every contributor, so that provision may easily be made for it. But the third requisite is wanting: the proprietor having the public money in his hands, often applies it to private purposes; and when the demand is made upon him, he is put to distress.

The taille, in many provinces of France, bears, first, a very exact proportion to the value of the land.(4*)

But in the second place, the proportion is entirely unknown to the man who pays it; being nowhere to be seen but in the offices of the intendant and his deputies.

And in the last place, the whole payment comes at once. What hides, and consequently destroys this proportion with respect to the French taille, is, that if after the first distribution is laid on, as in Scotland, at so many shillings in the pound of valuation, the full sum intended to be raised do not come in; either because the intendant has given exemptions to certain parishes, on account of the accidents of sterility, hail, mortality among the cattle, and the like; or because the property of a part of the parish has fallen into the hands of people exempted from the taille; or lastly that others, who were really bound to pay a part of it, are become insolvent.

The intendant must then make a second, and perhaps a third general distribution of the deficiency upon all the former contributors, in the most exact proportion indeed to the valuation of the lands, but yet by the nature of it impossible to be foreseen. It is for these reasons chiefly that the taille in that kingdom is so grievous.

These second distributions of the tax, first, destroy the proportion between the tax and the revenue taxed. Secondly, they make it impossible to judge of the amount of them. And lastly, the demand comes at once, when, perhaps, the money has been otherwise applied.

The French tax upon industry is more grievous still; because none of the three requisites above-mentioned are allowed to operate.

This tax is supposed to be proportional to the profits made upon trade, and other branches of industry, not having the land for their object. All merchants and tradesmen, in cities, and in the country, pay the tax called Industrie; and the reason given for establishing this tax, as I have said in another place, is in order to make every individual in the state contribute to the expence of it, in proportion to the advantages he reaps. Nothing would be more just, could it be put in execution, without doing greater hurt to the state, than the revenue drawn from it can do good.

I shall now shew how, in this tax, all the three requisites
we have mentioned are wanting.

First, by its nature, it can bear no exact proportion to the profits of the industrious man; since nobody but the person taxed can so much as guess at their extent.

Secondly, it cannot possibly be provided for, as no check can be put upon the imposer, unless as far as general rules are laid down for each class of the industrious; and from these again other inconveniences flow, as shall be observed.

Thirdly, it comes at once upon poor people, who have been frequently forced to beg for want of employment before the tax-gatherer could make his demand; and those who remain, frequently become beggars before they can comply with it.

I say, that from the general rules laid down for regulating this tax, as to every class, a workman who has a large family to maintain, is no less taxed than one who has no charge but himself: and it will be allowed, I believe, that the profits of one industrious person of the lower classes, is in no country sufficient to pay any considerable tax, and maintain a large family, much less a sickly one. I therefore imagine, that cumulative taxes never should be raised upon such classes of inhabitants as have no income but their personal industry, which is so frequently precarious.

Merchants also ought not to be subjected to any tax upon their industry. They ought to be allowed to accumulate riches as fast as they can: because they employ them for the advancement of industry; and every deduction from their profits is a diminution upon this so useful a fund.

When cumulative taxes are laid upon any of the industrious classes, they tend to check growing wealth; and are most commonly imposed in monarchical states, where riches are apt to excite jealousy, as has been observed.

But as to the class of land proprietors, that is to say, the more wealthy inhabitants, who live upon a revenue already made, the impropriety of cumulative taxes is much less. They are however burdensome, and disagreeable in all cases, and ought to be dispensed with, when the necessary supplies can be made out by proportional taxes, without raising the prices of labour too high for the prosperity of foreign trade.

From the examples I have given of this branch of taxation, I hope the nature of it may be fully understood, and that for the future no inconvenience will arise from my employing the term of cumulative tax.

I shall now subjoin its definition. A cumulative tax, is the accumulation of that return which every individual, who enjoys any superfluity, owes daily to the state, for the advantages he receives by living in the society. As this definition would not have been understood at setting out, I thought it proper, first, to explain the nature of the thing to be defined.

Chap. V

Of the Inconveniences which proceed from proportional Taxes, and of the Methods of removing them

A proportional tax, as I have said, is that which is levied upon the idle consumer, at the time he buys the commodity, and while, by consuming it, the balance of wealth is turning against him, in favour of the seller. This tax is consolidated as it were with the price of the commodity, and must of necessity raise the price of it.

I say, it is levied at the time of buying, and affects the
buyer, in consequence of his consumption; because we have seen, that when the commodity is not consumed by the purchaser, then upon a subsequent alienation he is refunded all he paid. I consider him therefore, in this case, not as paying, but as advancing the amount of the tax for another; and while any part of the commodity remains unconsumed, there still remains the equivalent for a proportional part of the tax in the hands of him who advanced it.

I shall now proceed, as in the former chapter, by giving some examples of such impositions; and in examining them, endeavour to shew their nature and consequences.

The most familiar to an Englishman are, excises, customs, malt-tax, stamp-duties, and the like.

To a Frenchman the gabelle, the traittes, the aides, tobacco, etc. (5*)

In all kinds of this imposition we find the tax regularly reimbursed from hand to hand; it adheres so closely to the commodity, that it becomes as essentially a part of the value, as carriage, packing, and the like incident charges, enter into the prices of goods. It never can affect the industrious person who does not consume; and never can be avoided by him who does. Such taxes therefore necessarily raise the price of the commodity taxed.

Having already pointed out the principal advantages of proportional taxes, which is to throw the whole of the burden upon the rich, whom we have called the idle consumers, the better to distinguish them from the opulent class of the industrious; I must now enumerate the principal inconveniences complained of, from this mode of taxation, and trace out the principles from which they may be ascertained and removed.

The principal inconveniences alleged against proportional taxes may be reduced to three:

First, That they have the effect of raising the price of labour, and the produce of industry, and thereby prove hurtful to the prosperity of foreign trade.

Secondly, That they discourage consumption, by carrying the prices of many things too high for people of a middling rank in life.

Thirdly, That they are both expensive in the collection, and oppressive, from the many restrictions put upon liberty, in order to prevent frauds.

In analyzing every one of these inconveniences, it will be proper to inquire, how far the conclusions against those taxes are drawn from, and so far as matter of fact; how far from plausible appearances only; they are real, not imaginary, to discover the methods of removing them.

As the first inconvenience arises from the rising of the price of all kinds of labour, and consequently of manufactures, I must distinguish between the consequence of raising prices at home, and of raising them upon articles of exportation; and I must consider the one and the other relatively to the collective body of a state, and not to some few individuals in it.

High prices at home are no discouragement to the industrious, most certainly, however disagreeable they may prove to consumers; and while they stand high, it is a proof that the demand of the consumers does not diminish.

High prices upon goods to be exported, are to be judged of by the proportion they bear to those in other countries.

Now the price of a manufacturer's wages is not regulated by the price of his subsistence, but by the price at which his manufacture sells in the market. Could a weaver, for example,
live upon the air, he would still sell his day’s work according to the value of the manufacture produced by it, when brought to market. As long as he can prevent the effects of the competition of his neighbours, he will carry the price of his work as high as is consistent with the profits of the merchant, who buys it from him in order to bring it to market; and this he will continue to do, until the rate of the market be brought down.

It is therefore the rate of the market for labour and manufactures, and not the price of subsistence, which determines the standard of wages. Were proportional taxes to raise the price of subsistence, and by that circumstance to discourage manufactures we should see the generality of workmen living with sobriety, depriving themselves of superfluity, confining themselves to the plain but sufficient physical-necessary, working with all the assiduity a man can support, and still not be able to supply the market at the ordinary rates.

When in any country the work of manufacturers, who live luxuriously, and who can afford to be idle some days of the week, finds a ready market; this circumstance alone proves beyond all dispute, that subsistence in that country is not too dear, at least in proportion to the market prices of goods at home; and if taxes on consumption have, in fact raised the price of necessaries, beyond the former standard, this rise, cannot, in fact, discourage industry: it may discourage idleness; and idleness will not be totally rooted out, until people be forced, in one way or other, to give up both superfluity and days of recreation.

People are very apt to draw conclusions from what they think ought to be, according to the particular combinations they form to themselves; and for this reason it is generally thought, because taxes are higher in England than in some other countries, that foreign trade should therefore be hurt by them. But the sloth and idleness of man, and the want of ambition in the lower classes to improve their circumstances, tends more, I suspect, to lessen the productions of industry, and thus to raise their price, than any tax upon subsistence which has been hitherto imposed in this kingdom.

The whole of this doctrine is proved by experience, and is confirmed by our natural feelings. Many have been amazed to see how well the manufacturing classes live in years of scarcity, which frequently have the effect of doubling the price of the most necessary articles of subsistence. Are they not found, in bad years, more assiduous in their labour? Do they then frequent ale-houses, as in the years of plenty? Are they found idle one half of the week? Why should a tax laid on by the hand of nature prove such a spur to industry; and another, similar to it in its effect, laid on by the hand of man, produce such hurtful consequences? Were a course of bad years, I dare not say an increase of taxes, to continue long enough to bring manufacturers to a habit of sobriety and application, a return of plenty, and low prices, would throw into their coffers, what many of them dissipate in riot and prodigality.

Even this conclusion will be too general, if every circumstance be taken in. Manufacturers there are, who work hard, and live soberly six days of the week, and who at the end find little superfluity, notwithstanding the high price of labour. Alas! they have many mouths to feed, and two hands only to supply the necessaries. This is the fatal competition so much insisted on in the first book, and by which a door is opened to great distress. Either the unmarried gain what the married should do, and become extravagant, or the married gain no more than the
unmarried can do, and become miserable.
The average between the two ought to determine the rate of wages in every modern society.
The remedies for this unequal competition, flowing from the happy liberty we enjoy, have been considered in another place.
The inconvenience here under examination will not be removed by an abolition of taxes; nor will it increase by the augmentation of them, as long as manufacturers, upon an average, enjoy superfluity and idle days.
Under these circumstances I conclude, that if foreign trade suffer by the high prices of commodities in our markets, the vice does not proceed from our taxes, but from our domestic luxury, which swells demand at home. Were we less luxurious, and more frugal in our management in general, all classes of the industrious, from the retailer down to the lowest manufacturer, would be satisfied with more moderate profits. Let not, therefore, a statesman regulate his conduct upon suppositions, nor conclude any thing from theory, nor from arguments à priori, drawn from the supposed effects of taxes; but let him have recourse to information and experience concerning the real state of the matter.
Let him inquire what are the prices abroad; what are the prices at home; how those who work in exportable commodities live; what superfluities they enjoy, and what days of idleness they indulge in.
If he find that goods are not exported, because of high prices, while manufacturers are enjoying superfluity, and indulging themselves in idleness, let him multiply hands, and he will reduce them all to their physical-necessary; and by thus augmenting the supply, he will also reduce the prices in his markets at home.
If he wants to reduce prices still lower, in favour of exportation, but find that he has occasion for the amount of certain taxes, which enhance the value of this physical-necessary to which he has reduced his industrious classes, then let him grant a bounty upon the quantity exported, more than equivalent to compensate the rise of prices occasioned by the taxes paid by those who provide it; and let the people at home continue to pay dearer than strangers, in favour of the state. If by lowering prices you wish to promote exportation only, there will be no occasion to lower them universally, any more than there is occasion to put a large plaister over the whole body, to cure a small wound on a particular part of it.
I have said, that while the rate of the market remains the same, so will the prices of every part of labour and industry, which enters into the composition of the thing brought to market. This is consistent with reason, and experience proves the truth of it; because we do not see wages fluctuate with the price of living. If they do not fluctuate in that proportion, how can we conclude that a rise in the price of subsistence, occasioned by taxes, should raise wages more than when the price is raised by a natural scarcity. It may be answered, that the imposition of a tax gives a general alarm; the effect it must have upon prices is immediately felt; and manufacturers then insist upon an augmentation of their wages: whereas, when nature either produces the same, or even a greater effect, people submit to what they think comes from the hand of God, and content themselves with the hopes of better times. I shall allow to this argument all its force.
But I must observe, that when manufacturers can thus capitulate with their employers, and can insist upon an
augmentation of their wages, the demand of the market must be
greater than the supply from their work. This is the circumstance
which raises the price of labour. Let the demand of the market
fall, the prices of labour will fall, in spite of all the reasons
which ought naturally to make them rise. The workmen will then
enter into a hurtful competition, and starve one another, as has
been often observed. Let the demand of the market rise,
manufacturers may raise their wages in proportion to the rise of
the market; they may, in the cheapest years, enjoy the highest
wages; drink one half of the week, and laugh at their employer,
when he expects they should work for less, in order to swell his
profits in the rising market.

I have endeavoured to throw this question into different
shapes, the better to apply different principles to it; and upon
the whole, I must determine that proportional taxes will,

First, Undoubtedly raise the price of every commodity upon
which they are properly and immediately imposed; and if they be
laid upon bread, and other articles of nourishment, they will
directly raise the price of these articles in proportion; but the
price of labour will be raised consequently only, and according
to circumstances.

That if taxes be laid upon the day's labour of a man, they
will raise the price of that day's labour. What I mean by this,
is, that if every one who employs a man for a day, were obliged
to pay a penny to the state, for a permission to employ him, the
employer would charge a penny more at least upon the day's work
performed by the labourer. Were a tax equivalent to it laid on
the labourer by the year, it would be of a cumulative and
arbitrary nature, and would not raise the price of his wages in
proportion; but were it laid upon the workman at a penny a day,
and levied daily, in this case, he might raise his wages in
proportion. But this is not the practice any where.

Secondly, The price of subsistence, whether it be influenced
or not by the imposition of taxes, does not determine the price
of labour. This is regulated by the demand for the work, and the
competition among the workmen to be employed in producing it.

Thirdly, If wages rise beyond the physical-necessary of the
workman, they may be brought down by multiplying hands, but never
by lowering the price of necessaries; because every man will make
a profit of the low price, but will regulate his gain by the rate
of demand for his labour.

Fourthly, If, therefore, the price of his physical-necessary
be raised upon him by the effect of taxes, he must work the
harder to make it up.

Fifthly, If hands increase, after he is reduced to his
physical-necessary, the whole class of the manufacturers will be
forced to starve.

Sixthly, The increase of hands means no more than the
augmentation of the quantity of work produced. If, therefore, the
same hands work more than formerly, it is the same thing as if
their numbers were increased.

From these positions it seems to result, that when ever it is
found that manufacturers enjoy wages more than in proportion to
their physical-necessary through the year, reckoned upon the
general average of married men and batchelors, the method for
reducing them to the proper standard, is either to multiply
hands, if you want to reduce prices in your own market, or to
augment the price of their physical-necessary, if you would have
them remain the same. When the hands employed are really
diligent, and prices still too high, then it may be expedient to
increase their numbers, provided they enjoy considerable profits.
This will cut off consolidated profits, and lower the price of commodities; because it will augment the supply.

When the hands employed are not diligent, the best expedient is to raise the price of their subsistence, by taxing it. By this you never will raise their wages, until the market can afford to give a better price for their work. If, when they are brought to be fully employed, you would have the price of labour to sink universally, you must take off some of the impositions which affect subsistence, and at the same time gradually throw in fresh hands, in order to promote competition, which alone will force them to lower their prices in proportion. The whole delicacy of this operation is to prevent competition among the industrious from taking place after they are reduced to moderate profits; and to promote competition among them, or to raise the price of their subsistence, until they be brought to the proper standard. Having insisted so fully upon these principles in the xviiith chapter of the second book, I here refer to it.

I have said, that the price of work is not regulated by the price of subsistence, but by the price of the market for the work. Now I say, that the price of the market may in a great measure be influenced by the price of subsistence. This is a new combination.

The first proposition is undeniable. The price of the market at all times regulates the price of work; because it regularly makes it fluctuate, in proportion to its own fluctuations. The price, again, of subsistence influences it only; because two circumstances may destroy its effect. A high demand for work will raise the price of wages in years of plenty; a low demand will sink the price of wages in years of scarcity. When therefore it is said, that the price of subsistence influences the rate of markets, we only mean, that the average price of subsistence, when good and bad years are taken together, have a certain influence in regulating prices. But this average price of subsistence cannot everywhere regulate the value of work, as the average price of a ship's cargo can regulate the price of every part of it; because the variations in the price of subsistence have not efficacy sufficient to overbalance the variations in the state of demand.

Could a plan be concerted, either to preserve the price of grain at one uniform standard, or within the limits of 15 or perhaps 20 per cent at all times; and were this to be executed by the assistance of a tax at one time, and a bounty as it were at another; it would certainly have an admirable effect in every industrious nation. It would in a manner take away the difference between good and bad years. The industrious finding themselves subsisted at all times nearly at the same expense, would not feel those alternate motives to be idle and extravagant at one time, and diligent and sober at another.

I have enlarged so much upon the nature of this first inconvenience proceeding from proportional taxes, that I have left myself very little to say as to the second, which is,

Secondly, That they discourage consumption, by raising prices too high for people of a middling rank in life.

In answer to this, I must observe, that all the amount of proportional taxes is refunded to the industrious consumer, so far as they are raised on articles necessary for his subsistence; and when he is either idle, or consumes a superfluity, he is classed along with the idle and rich. Now if the rate of market prices be high, relatively to the income of certain individuals, it can only be because the supply of the things they want to consume is not above the proportion of the demand of those who
are richer.

If, therefore, the rate of the market afford such profits to manufacturers as to render them idle and luxurious, how can the augmentation of these profits, by the abolition of taxes, and consequent diminution of the price of subsistence, ever diminish the competition of the rich, unless the supply be augmented?

But if the high prices of our own markets cut off the demand of strangers, then every principle laid down in the 10th and 18th chapters of the second book, must be applied to bring them down: and as far as taxes, which are imposed either to supply the exigencies of the state, or to cut off consolidated profits, enjoyed by manufacturers in consequence of our own extravagance, have contributed either to raise them, or to support them when raised, above the foreign standard, a full equivalent, in the way of bounty, must be given for them, in order to bring the exportation price of goods below the level of foreign competition.

I come now to the last inconvenience alleged against proportional taxes, to wit, the expense of collecting them, and the oppression which is a consequence of the many restrictions laid upon liberty, in order to prevent frauds.

As to the expense of collection, it is entirely in proportion to the disposition of the people to defraud the public.

In France, the collecting of the branches of cumulative taxes, such as the general receipts, comprehending the taille, poll-tax, &c. costs the state no less than 10 per cent or two sols in the livre, which is superadded to those impositions, in order to defray that expense. Whereas in England the expense of collecting the excise administered by commissioners, who act for the public, not by farmers who act for themselves, does not cost above 5 l. 12s. 6d. in the 100 l.

This matter of fact is sufficient to prove, that excises, when under a proper administration, are not so very expensive in the collection as is generally imagined; and they would still be attended with less expense, were some proper alterations made in the present method of imposing them. This will appear as we go along.

The oppression of levying excises does not, in any proportion, so much affect those who really pay them, as those who advance them only for the consumers.

This distinction which we have already made, will appear well founded, upon examining the complaints which are commonly made against the collectors of this duty.

We have seen how in the taxes upon salt and tobacco in France, there are no duties collected upon the people; the farmers of the salt have all the salt marshes and salt pits assigned to them by the King; no person, not privileged, is allowed to make salt for the consumption of those provinces which are subjected to the Gabelle.

In like manner the distribution and sale of tobacco is exclusively vested in the hands of the farmers: they buy it either from Great Britain, or from the Dutch at second hand; they manufacture it themselves, and sell it over all France, at the price set upon it by the King; and we saw, that during the last war, they paid thirty millions down, for a permission to raise the price of it 10 per cent during ten years. This price fixed upon the sale of tobacco, answers exactly to what we know under the name of assize, which ought constantly to attend all excises: (6") for want of observing exactly this regulation, the publicans and victuallers in England raised the price of their strong beer one half-penny per quart, in consequence of an
additional duty of three shillings per barrel imposed anno 1761, which is at the rate only of one farthing per quart.(7*)

When the sale of an exciseable commodity is vested in a company who manufacture it, by exclusive privilege, the whole oppression of collection is avoided; because the company itself then pays the duty, and they draw their reimbursement from proportional profits on the sale of the goods.

This is the greatest advantage of the farm above the public management of a tax.

When excises are levied upon those who manufacture the commodity excised, the oppression of the laws falls upon the manufacturers, although they advance the tax only, and draw it back from the consumers upon the sale of the commodity.

Were people to reflect a little, they would soon discover how greatly it is for the advantage of every consumer in the kingdom, that no fraud in the collections should pass unobserved; because all the profits arising from frauds belong to the manufacturer, who in reality is the tax-gatherer, as much as the farmers in France are tax-gatherers, when they sell their salt and tobacco. But as the farmers appear in the light of King's officers when they prosecute offenders, and our collectors seem to bear hard on those with whom we live, people foolishly imagine, that were brewers, for example, more gently dealt with, beer would come the cheaper to themselves. This is a mere delusion; because no brewer whatever will sell his beer cheaper than either an assize, or the ordinary rate obliges him to do, let his profit, from frauds, be ever so great, and his address in committing them ever so successful; and the less productive the tax turns out to be in the end, the more the other impositions upon the people must be augmented, in order to make up the deficiency.

If we compare therefore the oppression of excise-laws felt by those who advance these impositions only, with the ease which the consumers find who really pay them, we may judge of the advantages which the proportional taxes have over the cumulative.

The excise, as paid by the brewer, is really of the cumulative kind. The exciseman demands money of him, at a time when no alienation takes place, and perhaps when he is not prepared to make the advance for his customers, who must refund it to him with profit: besides the hopes of being able to defraud are disappointed, and it is always disagreeable to be disappointed in what we either wish or hope for.

Were all mankind honest, the inconveniences of levying such taxes would be less; but as this is not the case, methods must be fallen upon to disappoint the intention of committing fraud. The only way to accomplish this, is, to render if difficult and dangerous: but while every individual has a liberty to manufacture an exciseable commodity in whatever place he thinks fit to enter, (that is to declare to be set apart) for that purpose; when every one has a liberty to sell liquors, which, upon retail only, are subjected to excise (as is the case in France) must not collectors be multiplied in proportion to the occupation which such policy implies? And will not these collectors oppose frauds to frauds, in order to profit by them, at the expence of the merchant or manufacturer? This will sow discord and hatred between two classes of the same society, and thereby the state is hurt. All discord hurts a state, as it does a private family.

It is out of my way to lay down plans for preventing such inconveniences. It would require an intimate knowledge of every circumstance relating to the country for which the remedy is intended.
I shall therefore endeavour only to throw out some useful hints, by mentioning the impositions where the inconveniences in levying are the least; and by comparing these with other impositions, where the oppression in levying appears to be greater, the contrast of circumstances will suggest the principles upon which a plan may be formed.

There are many more frauds and difficulties in collecting excises in the country than in cities, from the number of manufacturers employed in them. It is just so with the aides in France, from the number of retailers. There are very few frauds and little difficulty in gathering the malt-tax; because the object is unwieldy, and the places of manufacture are fewer.

The frauds upon tobacco and salt in France, do not proceed from those who manufacture them, but from those who introduce foreign goods to supply the place of those manufactured by the company. This shews that excises should be made as general as possible over a country; because local exemptions introduce, as it were, a foreign country into the center of a state.

Stamp-duties are seldom defrauded by forging the stamp; but in France, where they extend to almost every deed of alienation, the public is defrauded by private bargains.

Customs are defrauded by the liberty given to trade in every port; and from the want of convenient public magazines, to serve as a proper repository for all goods brought by sea.

It may further be said, in general, that frauds are most frequent upon the new establishment of taxes; that those who complain most of the oppression of them, are precisely those who have the least reason for it; and that the cause of their complaint proceeds rather from the inconvenience in paying their taxes when they are not prepared, and the disappointment in defrauding, than from any real oppression arising from the laws of excise: the hardships of these laws are owing to the necessity of general rules for preventing frauds; and such rules would be unnecessary, could the liberty of committing frauds be circumscribed.

One very good method of raising proportional taxes, without great expence or oppression, when the situation of a country will admit of it, is to levy no such duties, but at the gates of towns and villages, which in this light appear to be political inclosures. At these gates every produce of the lands, and every manufacture not made in the town, might pay a tax upon coming in; every manufacture made in the town, might pay a tax on going out: all fruits consumed in the country might be free; all manufactures made and consumed in the towns might be free also. If we consider the quantity of exchange between the inhabitants of towns and those of the country, and between town and town; this regulation, I believe, will be found sufficient to raise more money by proportional taxes than what is raised in any country in Europe.

A second method of diminishing the expence, and also the burden of proportional taxes, is to exact nothing of the manufacturers of exciseable goods, but to prohibit the delivery of them to any one who does not present a permit from the excise office, signifying that the tax has been paid. This is the method observed in the Austrian low countries, where excises are carried to a very great height. There the transporters or carriers of exciseable goods, are formed into a corporation, and none else dare to transport them.

Whoever has seen the execution of these regulations will not be very fond of them; but the inconveniences which occur proceed from the political situation of all these towns, the public debts
of which are so enormous, that to pay the interest of them
excises have been carried so high as to banish manufacturers into
the country, where few excises are levied. It is from the country
and many considerable villages, which have not the privilege of
running in debt, that the manufactures of that country are
carried on. No industrious man can afford to live in the towns of
the Austrian Netherlands, except he who supplies their
consumption; and in no place, I know of, is work so dear as
there.

Were great excises levied there upon the furnishers of the
exciseable goods, as is the case in Great Britain, and were as
little restraint laid upon their frauds, those duties would not
produce what they do; and the oppression would be intolerable;
whereas by the policy established, nothing but the high price of
goods is complained of. A third method of avoiding both expence
and oppression in levying proportional taxes, would be to confine
the fabrication of all articles charged with them to certain
places properly enclosed. Were those undertakings few and large,
were spacious magazines of all sorts prepared, at the public
expence, in all sea-port towns, and surrounded with walls, an
entire liberty might be allowed within the inclosures, and no
questions would be asked, but on going in and coming out. Under
such regulations a state would reap great benefit. First, There
would be considerable savings in collecting. Secondly, There
would be great savings on the number of hands employed in
manufacturing: forty men, in a large brew-house, make more beer
than an hundred disposed as they are in country villages. This
resembles the introduction of machines into manufactures.

The objection from the infringement of liberty is more a
pretext, in order to facilitate fraud, than any thing else. Are
not those who manufacture exciseable commodities, the servants of
the state? Are they not even the collectors of the public
revenue? With what face then can they pretend to be indulged in
the means of defrauding their customers of those taxes which they
wish to put into their own pockets, by withholding them from the
public. Has liberty any other meaning, but an entire permission
to do whatever is not forbid by general and wholesome laws,
calculated for the universal good of the society; and shall this
class of men, who are enriching themselves as much by the profits
they have in advancing the taxes, as by their industry, be
considered in as favourable a light as another who is paying a
cumulative tax out of his income, one farthing of which he never
can draw back?

If any one should misinterpret the doctrine of this chapter,
I must put them in mind of my original plan, which was to keep
constantly in view those virtuous statesmen who think of nothing
but the good of their subjects. Taxes and impositions in their
hands, are the wealth of the father of the family; who therewith
feeds, clothes, provides for, and defends every one within his
house. The increase of taxes on this supposition is national
oeconomy, as shall be afterwards shewn; frauds are the thefts of
servants impairing the public good, and particularly the means of
self-defence against the incroachments of ambitious neighbours.

As it is the duty of every statesman to make his people happy
and flourishing, perhaps the speculations of one whose only
interest in throwing them upon paper is to fill up his leisure
agreeably, may some time or other tend to promote so glorious a
purpose.

Chap. VI
Cumulative and proportional Taxes compared with one another, and farther examined

After examining separately the nature and effects of cumulative and proportional taxes, it remains, for the more full understanding of this subject, to compare them together; the better to find out wherein they really differ, and how far the difference is apparent only.

It has been observed, that as the payment of taxes is made in money, this payment can diminish no part of the produce of either land, or industry; the whole amount of these remains entire to the subjects of the state.

Taxes then are paid either out of the money which circulates in the purchase of produce and manufactures; or out of the income arising from solid property; from which we have concluded that those of the proportional kind must constantly be confined within a certain proportion to alienation. We have also observed, that the imposition of taxes augments the mass of circulation, and makes it requisite for a statesman to contrive some method for increasing money in proportion to their increase. I hope these propositions have acquired an additional confirmation, from what has been already said in the preceding chapters.

We have also seen how the amount of proportional taxes is ultimately taken from the superfluity of the rich, whom we have called the idle consumers; and how they are advanced by one set of the industrious, and refunded by another, until at last they fall upon those who cannot draw them back from any body. These last have been said to pay the taxes, the others to advance them only.

Were we therefore to suppose all desire of defrauding out of the way, we should find the whole burden of proportional taxes confined to the inconvenience of advancing their amount by the industrious, and to the payment of them by the rich, which proportionally diminishes their income. Where credit therefore is well established, where payments are regularly made by buyers to sellers, and where people proportion their expence to their free income, the weight of proportional taxes will be very small. I appeal to experience for the truth of this.

Let us next examine the nature of cumulative taxes, as we have called them, in order to distinguish them from the others.

In these, alienation is not necessary at the time they are paid; from which it follows, that, in many cases, they cannot be drawn back. When a man pays his land-tax out of his rent, what remains to him will not buy more of any thing than if he had paid nothing. Nay, were the state to indulge him and take his tax in corn, the corn which remains to him would not bear an advanced price, unless the state should export the quantity he had given; and then indeed, by diminishing the supply, it might raise the price of grain in general; but every one having grain to sell would profit of the rise upon the price, as well as the landlord, whose share does not commonly amount to one third of the crop.

But were a cumulative tax so levied as to prevent the proprietor from spending what the state intends to make him pay out of his income, he who pays it would thereby acquire one great alleviation of his burden.

I have said that when a brewer pays the excise, the tax, as to him, is of the cumulative nature. It is so in a certain degree, no doubt, as may be seen without farther explanation; but it still so far retains its own nature as to be easily drawn back from the consumer. But how can a soldier draw back the tax he pays to Chelsea?
From this material distinction between the two impositions, I conclude, that no objection can lie against proportional taxes, so far as they affect the industrious; because they draw them completely back: and that great objections lie against cumulative taxes, when they affect the industrious, because they cannot draw them back at all; and consequently, they may affect the physical-necessary of the contributor, in case no profit should remain to him upon his labour. On the other hand, I think little objection can be made to cumulative taxes, when they are imposed upon possessions, which produce a visible annual revenue, clear to the proprietor. This is the nature of the dixiemes and vingtiemes in France; where the whole amount of the person's income is taken upon proper proof, and taxed in proportion to it, without any subsidiary or second levy's taking place, to make up a determinate sum.

Cumulative taxes would also be far less burdensome to the lower class, could they be levied, so as, first, to preserve the proportion of them to the actual profits on industry; secondly, to make that proportion sensible to the people: and in the last place, to retain the tax, instead of allowing them first to receive it, and afterwards obliging them to refund it.

In proportion as these three requisites do not take place, such taxes become grievous to all who have no fixed income.

To put a tax upon a man's dwelling house, in proportion to its windows, or hearths, when the house produces no fixed income to him, and when he has none independent of it, may take away a part of his physical-necessary. To put a tax upon his head, is more grievous than to put a tax upon his hands, in proportion to what they daily gain.

If cumulative and proportional taxes be compared, with respect to the influence which they severally have upon our opinions as to taxes in general, we find that both of them deceive the contributors, but in different ways.

In the cumulative taxes, the person who pays does not always perceive the reason of his paying. He imagines that he is taxed merely because it is known that he is able to pay a certain sum.

In the proportional, the deceit is of another nature. When a person buys a consumable commodity, which has paid an excise, he does not perceive that the price he pays for it comprehends a tax upon his past gains, in favour of the public; but he concludes the whole to be necessary, in order to procure what he has an inclination to consume. An example will make this plain.

Suppose a tax laid upon wheel carriages, and that every person in the state were liable to pay a certain sum in proportion to the number of carriages he has for his convenience. The tax-gatherer comes at the end of the year and demands the sum. The person complains that he is not at liberty to have a coach or a chaise without paying duty for it; and that while he has occasion for one carriage only, and has but one pair of horses, he is obliged to pay for several sets of wheels.

Now suppose this cumulative tax were turned into a proportional one, and that wheels were to pay a stamp-duty, or the like, in the hands of the wheelwright. The price of them would immediately rise. but this rise would soon become familiar to the man who has the carriage; and he would then be no more hurt by this additional expence, than if it had proceeded from some new and expensive fashion of wheels; in short, wheels would generally begin to bear an advanced price, and very soon nobody would enquire how it came about, nor once complain of the tax.

To set this in another light, the difference between the two impositions resembles that between long and short accounts, which
to poor people is very great. When the expence of living is insensibly and universally augmented, by the effect of proportional taxes, then the industrious man, who enjoys neither superfluity or idleness, may and can augment the price of his work in proportion. This augmentation forms then a part of what has been called his (A), which he draws fully back when he comes to market. But if the same, or even a less sum be raised upon him by a cumulative tax, it comes upon him at the end of the year, or at the end of the quarter, and let him be ever so provident, he cannot draw it back, or raise the price of his work, because of the unequal competition of other people of his own class, who from a variety of circumstances, cannot all be so equally loaded by the cumulative as by the proportional taxes. Besides, they may not be so provident as himself and may work for subsistence, without making any allowance for what they are to pay the state at the end of the year. Thus a double inconvenience ensues. The industrious poor are oppressed by the tax-gatherers, and the tax is ill levied. In the other case, the first never see a tax-gatherer, and the money is paid. Besides these advantages in favour of proportional taxes, there is still another, that if this tax be improperly laid on, the defect will manifest itself by checking consumption only; whereas in the other case, it will be known by the distress also of the individuals.

If the liberty not to consume be taken away, as in the gabelle in some provinces in France, then the imposition changes its nature and becomes a cumulative tax, as may be easily perceived.\(^{(8*)}\)

It has been said, that so far as the three inconveniences of the cumulative taxes can be prevented, they cease to be oppressive. From which we see the reason why excises are so easily paid when those who manufacture the commodities charged with them, are contented to compound for them. This changes the tax into one of the cumulative kind; but gives it every requisite to make it easy. Let me take an example.

A brewer who pays excise for all he brews, is exposed to the daily visit of the excise-man, to whom he pays the duty. Here the brewer's imposition participates of several of the inconveniences attending cumulative taxes. But let me suppose that after a certain time he finds that 100 l. is the annual amount of his excise. If he make a composition for it at this rate, he comes under a regular cumulative composition, with every advantage. He thinks no more of frauds; he no more grudges what he pays; and becomes in a manner collector of that imperceptible duty advanced by him, and paid by all his customers.

The easy method of transforming those taxes into one another, shews their resemblance sufficiently, and the differences which we have pointed out, shew the principles which regulate the proper manner of imposing them.

Chap. VII

Consequences of Taxes when the Amount of them is properly applied

We have now seen the objects affected by taxes, and the inconveniences which result to those who are obliged to pay them. It comes next to be examined, whether taxes of all kinds be not a great load upon a people, a grievous infringement of their liberty, the means of bringing many honest and industrious people to great distress, and a great discouragement to marriage. I answer without hesitation, that taxes may be, and most commonly are accompanied with all these and many more inconveniences; but
I must add, that they proceed from the abuse, and not from the nature of taxes.

In my inquiries, I have constantly in my eye, how man may be governed, and never how he is governed. How a righteous and intelligent statesman may restrain the liberty of individuals, in order to promote the common good; never how an ignorant and unrighteous statesman may destroy public liberty, for the sake of individuals.

Raising money by taxes must always be burdensome, less or more, to those who pay it; and the advantages resulting from taxes can proceed only from the right application of the money when it is raised.

When individuals only draw a profit from the inconvenience of taxes, the public loses, no doubt; because taxes are paid for the advantage of the public, not for that of private people. If the money raised be more beneficially employed by the state, than it would have been by those who have contributed it, then I say the public has gained, in consequence of the burden laid upon individuals; consequently, the statesman has done his duty, both in imposing the taxes, and in rightly expending them.

Taxes, in this last view, may be considered as a saving out of every private fortune, in order to procure a public fund to be expended for the public benefit.

I have frequently recourse to the familiar examples of private oeconomy, in order to make applications from it to the political; which, however different it may appear, will be found easily deducible from the same principles.

Let me suppose two persons, (A) and (B), living in the same neighbourhood, of the same rank and fortune, enjoying great superfluity, but spending yearly the whole of their income in different ways.

Let the income of both be supposed to be 2100 l. sterling; and let the branches of their expence be ranged under six different heads. Let (A) be supposed to spend upon the first 100 l. on the second 200 l. on the third 300 l. on the fourth 400 l. on the fifth 500 l. on the sixth 600 l. in all 2100 l.

Let us suppose (A) to enjoy in every one an ample sufficiency.

(B), on the other hand, spends upon his first article 1600 l. and upon each of the other five, no more than 100 l. Here the first article of (B's) expence is sixteen times greater than any of the rest; and by the supposition, 100 l. is supposed to denote an ample sufficiency upon each article.

I come to (A), and I say to him, you disapprove of the extravagance of your neighbour (B) upon his first article of expence, where he spends sixteen parts of his income, and where you spend but one; and yet you must allow that upon every other article of his expence, he is a better oeconomist than you. Would it not be for your interest to bring the other articles of your expence down to his standard, without increasing any thing upon your first article, which is already within the compass of what may be called sufficient.

To what purpose, says (A), would you advise me to so strict an oeconomy? And what should I do with so great a saving on my annual income? Be in no pain about that. I shall lay it out for you in discharging your debts; in providing for your children, and giving them a good education; in improving your estate; repairing your house; making up your inclosures; all shall be usefully spent; and out of 600 l. a year, you shall have every thing necessary for your family.

Here is the representation of a scheme between a good
statesman and a people whose interest he consults.

After the imposition of taxes, the individuals of a state, who have already a determinate income, begin to pay greatly more than they used to do for every thing they consume. A great part of this additional price goes to the public, and is thereby laid out for national purposes. The whole of such expences is thrown into circulation, as much as if the rich proprietors had laid it out themselves upon articles entirely adapted to their own taste.

Is it not evident, that in this way of appropriating the income of a country, it must produce a more extensive encouragement to industry of all kinds, than if the proprietors only had spent it? They never would have thought of becoming merchants, or of setting up manufactures for the supply of foreign markets: their whole expence would have been calculated to supply their own wants real or imaginary; and it would have been indifferent to them whether these were supplied by natives or by strangers.

Let us apply this doctrine to common experience. Let us compare the nature of circulation in a trading town, with that of a country place, where many gentlemen of large fortunes reside. How extensive the objects of the first! how contracted those of the latter!

Let us compare again the exigencies of government, with those of a trading city, what a variety of new wants here occur to be supplied, which the city never could have occasion for?

I have shewn how the great amount of taxes comes to be taken from the income of those individuals whose fortune is already made, or whose daily profits are considerable: I have suggested how circumscribed the expence of this class must be, when considered with respect to the employment it procures to the body of a people. Does not the experience of former ages show how apt private opulence is to sink into treasures, when a taste for industry does not animate the lower classes to create new objects of desire in the wealthy? Wherein is a state benefited by the luxurious gratifications of the rich, unless it be by the employment they procure for those who provide the objects of luxury? Those very gratifications are, in one sense, taxes upon the rich in favour of the industrious: they increase expence, and throw money into circulation. In Spain and Portugal, where industry is not introduced among the lower classes, the strangers are they who in effect levy such taxes upon them. Were the taxes they pay, properly applied for the encouragement of the arts, instead of being appropriated to private purposes, and to the enriching of private men, whose taste for expence is always circumscribed to the objects of their own wants, how soon should we see them vying with us in every market of Europe, and supplying themselves as far as their country is calculated for it.

The reciprocal wants of industrious nations, resemble the reciprocal wants of tradesmen; all may be employed in supplying one another, as well as themselves.

When a due proportion of the amount of taxes is properly laid out in premiums, for the encouragement of the industrious, the prices of labour upon articles of exportation, may be brought so low, that all nations who do not follow the like policy, must languish and decay. Luxury at home will then cease to hurt the foreign trade of the nation. In her treaties of commerce, she may throw open her ports to many articles of foreign consumption, without incurring any inconvenience from such allowances; while on the other hand, she will reap the greatest advantages from a reciprocal permission.
The example by which I have illustrated the nature of public contributions, must not be understood to tally with respect to proportion. It would be both ridiculous and impossible to reduce all the expences of rich men to the barely sufficient. All I meant was, to shew how taxes, when properly applied, may be considered as public oeconomy; and how the levying of them has no direct tendency to hurt a nation in point of ease and prosperity.

Chap. VIII

Of the Extent of Taxation

One good way to discover the nature of taxes, is, to examine how far it may be possible to carry them. This is my intention in this chapter.

I have said that the object of taxes was income, and not stock. I have shewn how those of the proportional kind affect the income of stock already made, and enhance the expence of persons who enjoy large profits upon their daily industry. I have pointed out the impropriety of imposing cumulative taxes, upon such as draw nothing more from their industry than an easy subsistence; and I have given a general preference to those of the proportional kind; because they constantly imply both alienation and consumption: alienation in those who advance the taxes, consumption in those who pay them.

Could, therefore, taxes be levied upon every alienation, where consumption is implied, and that in proportion to the whole superfluity of those who are to consume, proportional taxes would be carried to their utmost extent.

I shall now analyze this subject still farther, in order to discover how far this extent may reach; and by this inquiry, the principles of taxation will be the better understood.

The object of alienation comprehends all that is in commerce among men, moveable, and immoveable.

What is moveable is generally consumable, what is immoveable, is generally not so.

As consumption is a requisite, together with alienation, in order to form a proper object for proportional taxes, we see how contrary to principles it would be, to tax the alienation of lands, houses, etc. in the same proportion as consumable commodities. These are funds, not income; and the money with which they are purchased, must be considered in the light of a fund, while it is in the hands of the buyer. When once it comes into the hands of the seller of the immoveable subject, it frequently, indeed, partakes of the nature of income; that is to say, it is spent in the consumption of fruits, and of the labour of man; and then it will be properly affected by proportional taxes. This may suffice to recall to mind the principles we laid down in the 26th chapter of the second book, concerning the effects of the vibration of the balance of wealth between the members of a modern state.

The next thing we are to consider is the state of circulation. As to this, we have frequently observed, how it must be in proportion to alienation.

This proportion is not determined by the value, or denominations of the money circulating; but by this value combined with the frequency of transitions from hand to hand; as the force of a cannon ball is estimated by the weight of the ball, and the swiftness of the motion at the time it strikes.

Let us now lay aside the consideration of immoveable property altogether; and examine the nature of consumption, alienation,
and sale, with respect to other things.

Consumption comprehends every thing produced by the earth, or by man; alienation is confined to that part of consumption which is exchanged between men; and sale to that part of alienation which is exchanged for an equivalent in money.

Whatever part is consumed without alienation, ought, I think, to be out of the reach of proportional taxes, unless, by some circumstance or other, it can be made to fall under the eye of the public, in a manner resembling its coming to market. Thus a tax upon malt may with propriety be levied at the malt-house, as if it were sold to the maltster, although it be made for the consumption of the grower of the barley. In like manner a tax upon corn for bread may be levied either at the mill where it is ground, or at the oven where it is baked.(9*)

The worst kind of proportional taxes are those which are levied upon private manufacturing, and upon unmanufactured consumption, where no alienation takes place. An example of the first we have in the excise upon malt, cyder, candles, etc. made in private houses for private use: the last is known in Holland, where a man cannot kill his own pig, or his own calf, without paying a tax. Were taxes of this nature extended to the making of bread, cooking of victuals, &c. I apprehend they would become of a nature more burdensome than any hitherto invented, unless public cooks, &c. were established, as public ovens are in many parts of France: in such cases, taxes might be levied upon every part of consumption.

Investigations of this nature are so disagreeable, that it is with reluctance I mention them; but when in fact, such taxes are found established in different countries, it is highly proper that the nature of them should be inquired into.

Taxes in Holland are so multiplied, as to descend to this sort, in many places, as we have seen by the example just given; but even these, however oppressive they may appear to those who are not accustomed to them, are still less so than many of the cumulative kind we have mentioned, particularly the tax upon industry and the capitation in France. They approach nearer to proportional taxes and derive every alleviation of their burden from this circumstance. He who pays such taxes, sees that he can avoid them, by retrenching his consumption; and when they fall upon the necessaries of life, he may draw them back, provided he be an industrious man, and that every one who enters into competition with him for employment, be equally subjected to the same burden. But they are more burdensome than those where sale takes place; because, when a poor man, who wishes to consume, has no money, he considers himself in the same light as if the thing were not to be sold; but when he has what he has acquired by his own labour, and cannot consume it for want of money to pay for a permission, as it were, he must either starve for hunger in the midst of plenty, or be reduced, perhaps, to beggary, for having preserved his life by defrauding the tax.

What has been said, is, I think, sufficient to shew the hardships which occur, when taxes are imposed upon bare consumption, where no alienation takes place: they must, in every respect, be ranged under those of the proportional kind, although some principal requisites be wanting to engage any one to approve of their institution.

It appears still more difficult to establish a proportional tax upon barter, or the exchange of commodities one for another, unless sale be understood. This would be the case were a private person, not subject to the excise upon beer made in his own house, to pay in that commodity. He would not there escape the
imputation of fraud; and might, with propriety, be considered as a retailer. I do not, however, doubt but examples of taxes upon barter might be found; some even occur to myself; but they are too trifling to mention.\(^{10}\)

The last and principal requisite, to render proportional taxes easy and light, is sale. There the burden must be proportional to the buyer's purse; and if it prevent the consumption of the thing taxed, the defect will manifest itself.

Of these taxes we may say, that they are in proportion to circulation; and accordingly, we see how difficult it was to raise them, as long as circulation remained confined to the small quantity of coin in the country. As money increased, both by the increase of trade and alienations, they became more productive; and were the nature of them rightly understood, and were they properly imposed, they would soon be more generally adopted.

In treating of public credit, I have said that it is the duty of a statesman to augment the quantity of money, in proportion as he intends to multiply taxes on his people. I shall now, before I conclude this chapter, explain the meaning of what was there thrown out relatively to another subject.

The money of a country, we have said, bears no determinate proportion to circulation; it is the money circulating, multiplied by the number of transitions from hand to hand. Again, we have said that the prices of all things are determined by demand and competition. The meaning of this, as it concerns the present question, is, that in proportion to the competition of those who appear with money, in order to acquire what comes to market, a larger or a smaller sum is brought into circulation.

Now, according to the principles laid down in the first chapter of this book, we saw how the full value of the industrious seller's expense and profit, were made up to him in the sale of his work; and if he had advanced any tax upon any part of his work or consumption, that even this was refunded to him by the buyer, who, if he consumed in the light of an idle man, paid for the whole.

Farther, when a proportional tax is imposed, we said it was, in a manner, as if the state interposed at the time of alienation, and exacted of the purchaser a certain value in money, in proportion to the commodity, as the price of the permission to acquire what his own industry had not produced. From this I draw the following consequence, that in proportion to the tax, an additional sum of money is drawn into circulation, which would otherwise have remained in the pocket of the purchaser; consequently, on imposing proportional taxes, they cannot, at first, exceed that proportion of money which is found in the pockets of the consumers, over and above what they used to pay for what they consumed.

The truth of this proposition is established upon many facts. First, in countries where people keep their money locked up, proportional taxes are very well paid. Hence the great amount of the alcavala and cientos in Spain, which amount together to 14 per cent upon every consecutive alienation of the commodities which they affect, chiefly indeed for the consumption of the rich.

Secondly, When excises were augmented in England, in the reign of king William, Davenant tells us, that the goods excised fell in their price.

Thirdly, When a war has lasted any time in France, taxes cease to be so productive.

Are not all these, and many other appearances, resolved upon the same principle, viz. that taxes must come out of that money
which exceeds what was necessary for carrying on alienation before they were imposed?

In Spain such taxes draw money from the chests of the hoarders, and increase circulation for a while.

In England, during King William's wars, the quantity of money being very small, and trade being very low, the tax upon malt could come out of no other fund than the price usually given for barley.

In France people are better acquainted with taxes, and the great bulk of excises are administered by the farmers, who never lower their price; so that the diminution of the mass of coin must diminish consumption.

But when methods can be fallen upon to increase money according to the uses found for it, taxes will continue to produce, consumption will not diminish, and circulation will keep pace with them.

Could we suppose, that before the imposition of taxes, every person in a state had laid it down as a rule, to spend the whole of his income, but none of his treasure, in the consumption of what is brought to market, it is plain, that in a luxurious nation, taxes might be carried so high as to draw the last farthing of the treasure into circulation, even though it were supposed to exceed the value which demand had fixed for all that was formerly brought to market. But without a luxurious turn this would not be the case. There are countries abounding with coin, which it is impossible to come at by proportional taxes. The reason is plain: the value which demand fixes upon the total of the articles of consumption exposed to sale in the country, bears but a trifling proportion to the coin which remains locked up. This was the case in ancient Greece. In this case, proportional taxes never can exhaust the treasure; because were they to be made high upon articles of the first necessity, all the poor would starve; if upon articles of superfluity, demand would stop.

Proportional taxes, therefore, can be raised in proportion only to the desire of spending money; and as this desire depends upon the spirit of the people, so must the extent of taxes.

Let me now trace a little the progress of money brought into circulation by proportional taxes in a luxurious nation. I shall call the value, fixed by demand, for all that comes to market \((Y)\). The sum levied in consequence of the alienation of it, or in other words, the sum of the proportional taxes \((X)\). And the whole money of the country \((Z)\). This premised, it will follow, from what has been said, that as soon as all the money of the country is brought into circulation, then \((Z)\) will be exactly equal to the sum of \((Y)\) and \((X)\).

Let us next suppose the whole alienation to be made at once. Will not \((Z)\) then immediately appear divided into \((Y)\) and \((X)\)? What then will become of those two sums which we suppose to enter into circulation at the same time? I answer, that \((Y)\) will go entirely free to the industrious seller: that it is, or should be, nearly equal to the former value of what came to market before taxes were imposed: and that \((X)\) is an additional sum drawn from the idle consumers, who live upon an income already made. But suppose \((X)\) to be augmented, until it exceeds the quantity of money formerly superfluous for carrying on alienation: then I say, that either taxes will become proportionally less productive, or consumers must melt down the capital of their funds into paper money, to the amount of the deficiency of \((X)\); and this will supply circulation with the additional sum required in consequence of the imposition of taxes.
Now, I think, it is a lucky circumstance, that the additional sum of taxes should be paid by those very people who are the best able to borrow it upon their funds.

Let us proceed to examine the progress of (Y) and (X) as they continue in circulation. (Y) is no sooner come into the hands of the industrious seller, but he has occasion to go to market; that moment I consider him as one of the rich; and the money which, at the time he sold, had acquired the denomination of (Y), now resumes that of (Z). When he comes to buy a commodity with what was formerly his (Y), there is immediately a part of it converted into a new (X), and the remainder keeps the denomination of (Y) in the hands of him from whom he buys. By this progress it is plain, that after a certain number of alienations, or transitions from hand to hand, the whole quantity (Y) will be converted into (X).

Experience shews this to be the fact; because the amount of taxes in a short time, far exceeds the value of all the money of a country.

Let us next follow the progress of (X).

Upon the first alienation of any part of what comes to market for the consumption of the proprietors of (Z), a proportional part of (Z) is transformed into (X), and is carried into the public coffers. Were it there to be locked up, and not thrown back into circulation, it is plain, that in a short time the whole of (Z) would be converted into (X), and would be shut up in the exchequer.

When the amount of taxes, therefore, instead of being shut up in the exchequer is sent out of the country, as in time of war, must not this produce a similar effect? Has not the exportation of this amount the same effect as locking it up, since the one and the other equally take it out of circulation? Does it not then follow, that if more money be not obtained, either by borrowing it back from strangers, or by melting down more solid property, that selling must stop, and (Y) disappear as well as (X)? The rich, therefore, must give over buying, and the proprietors of all that comes to market must deal by barter with one another.

How naturally do all these consequences follow one upon the other! and how exactly do they correspond to the principles which run through that part of the last book where we treated of banks and public credit!

Taxes are not raised, in our days to remain in treasures, but to answer the exigencies of the state. The moment, therefore, that the money arising from them comes out of the public coffers, it loses the character of (X) and resumes that of (Z), in the same manner as (Y) was transformed into (Z), by being brought to market in order to buy a commodity. This new (Z), as we may call it, no sooner returns into circulation, than it becomes again converted into (Y) and (X), with this difference, however, that what came from the exchequer, so far as it is converted into (X), returns directly into it again.

Hence it follows, that states commonly pay their servants the full of their salaries, and make them refund a part in consequence of cumulative taxes, instead of proportionally diminishing what is due to them. And when the salaries themselves are intended to be paid under poundage, which in fact is an actual diminution of them, they choose that the tax should appear to be a deduction out of what is supposed due; because it seems less arbitrary to impose a tax, than to diminish a salary, without assigning any reason for it; but indeed, besides this reason, it commonly happens, that the particular appropriations
and administration of the revenue render this method easier.

With respect to proportional taxes they affect the expences of the state in the same manner as those of individuals; with this difference, as we have said, that the part \( X \) returns into the exchequer; but the part \( Y \) is fairly spent by the state, as by the idle consumer.

From what has been said, we may gather the principles which lead to the most extensive establishment of proportional taxes, viz., either to draw by particular regulations, the whole real and gross produce of land and work to market; or at least to bring it under the eye of the state, in consequence of some modification or manufacture performed upon it, as was observed with respect to malt-houses, mills, and public ovens. When, by such contrivances, the whole gross produce falls under taxation, the proportional taxes must be gently laid on, and gradually raised until they begin to interrupt consumption; then they must be diminished for a while, until dissipation increase; a case which will probably happen, as it commonly keeps pace with industry.

If we suppose the rich to set out on a plan of living upon their capitals, instead of living upon their incomes, as we have hitherto supposed them to do, then indeed taxes may augment to a degree not to be estimated. This combination has already found a place in the 26th chapter of the second book, where we examined it with regard to the progress of industry. In that place it was said, that in proportion to credit and industry, it might be possible, in the compass of a year, to produce commodities to the value of the whole property of the most extended kingdom. Were this the case, to what a height might not taxes be carried?

\( Y \) then would represent the whole value of the country, and consequently \( X \) would swell in proportion, according to the competition among the inhabitants, to purchase every particular article. Subsistence and necessaries might be taxed low in proportion to the abilities of those of the lower classes; articles of luxury might be taxed in a higher proportion, in order to draw the more into the exchequer.

Were taxes thus carried to their utmost extent, still every person in the state must be left at liberty to save, or to spend the whole, or any part of his stock, or income; which is not the case when cumulative taxes are imposed. Proportional taxes, though carried to their utmost extent, will not deprive an industrious man of his physical-necessary, nor of the reward of his ingenuity, nor of that rank in wealth, to which his birth or expence entitles him.(11*)

When taxes have the effect of interrupting this harmony of expence, of restraining the liberty of squandering, or of saving, or of oppressing one set of men more than another, in all such cases, they are improperly imposed; and instead of being too high, as it is commonly supposed, I think it is a demonstration that they are really lower than they need to be. The classes of men in a modern state, resemble the horses in a team. When every horse draws fairly and equally, the whole force is exerted; but if any one happen to be strained by an over-charge thrown upon him, the force of the team is greatly diminished.

When proportional taxes are carried to their full extent, I then presume every one will be obliged to pay as much as possible; I do not mean that every one will be forced to pay to the extent of his abilities, but I say, that the generality will; and therefore, were cumulative, or personal taxes, to be superadded on those who already pay all they can, they would, by affecting them unequally, deprive many of their physical-necessary, or small profits; and consequently destroy
the proper balance of their competition. The setting of the lower classes free from cumulative taxes, will have the effect only of putting the growing wealth of the penurious and saving part of the industrious inhabitants out of the reach of taxation. This ought in good policy to be done, as has been shewn in another place. But, farther, we have observed, that taxes can be increased in proportion only to the spirit of dissipation in the people. To force money, therefore, out of the hands of those who do not incline to spend it, is forcing the spirit of the people; and if it be not tyranny, it is at least great severity. Besides, we shall presently shew, how impossible it is these savings should escape being taxed whenever they begin to produce an income; and allowing that they may be greatly accumulated, and thrown into trade, yet still they must in one way or other appear in alienation, and become subject to the proportional taxes. The only part, therefore, of the savings not affected by taxes, will be confined to that which is locked up. This in a prodigal nation should never be touched. The inconveniences resulting to the state from so small an inequality of taxation, is too trifling to be attended to, and too difficult to be prevented.

I come next to examine the extent of cumulative taxes. If we suppose the proportional taxes to be carried to their full extent, there will be little place found for the cumulative, as has been said. The only objects left for them are the savings locked up, and the pure profits upon trade.

But let us suppose proportional taxes out of the question, as they must be when contrary to the spirit of a particular nation; and then inquire into the principles which regulate the imposition of cumulative taxes, in order to discover to what extent they may be carried, and what consequences may follow when they are brought to a height.

This branch has two objects; first, income, which is determinate; secondly, profits from industry, which are and must be very uncertain.

Income, I divide into two sorts; that which proceeds from every branch of solid property, capable of producing it: Land, houses, even cattle, furniture, &c. all may, in some respects, produce an income, more or less permanent according to circumstances. This sort of income is established by lease. The second sort is the interest of money, constituted by the contract of loan.

In imposing cumulative taxes upon income, it is very proper to attend to the nature of every species of it, with respect to its stability. Landed property is fixed, and cannot escape taxation, were the tax to be carried even to the extent of the full income, as has been observed. Were the same proportion to be laid on houses, they would soon fall to ruin, because the nominal proprietor would not keep them up. Like circumstances must be attended to, in taxing every other article of revenue.

The method of ascertaining the value of this kind of property, is to oblige all leases to be recorded, under a sufficient penalty. This is the method in France, for the sake of the controle, which is exacted upon recording them; and this, no doubt, facilitates the arising of the twentieth penny, which operates upon all such income.

The value once ascertained, the whole income is at the mercy of the state, in proportion to the impossibility of avoiding the tax, by any change on the nature of the fund. It is from this circumstance that I have called all such taxes arbitrary impositions. And I call them also cumulative; because the reason given for imposing them, is, that it is just every one should pay
a general tax, for the support of the state, in proportion to his abilities.

As these taxes cannot be carried beyond the value of the income which the proprietor cannot withdraw from under the burden, we see the impossibility of establishing them upon that income which proceeds from money. If a tax of so much per cent be imposed upon money lent at interest, the lender may immediately call in his capital from his debtor, and send it away beyond the reach of the tax. If the calling it in be prohibited, then all credit will be destroyed for the future, and no more money will be lent. If the statesman should be disposed to profit of the advantage found in securing money upon land-property; and if, trusting to the desire monied-people have of settling their capitals in that way, he should take one or more per cent. upon capitals so secured; it will still have the effect of hurting the credit of landed men, who have frequently no good security but their land to give.

It was formerly the practice to allow the landlords a retention of a part of the interest, in consideration of the tax they paid upon that part of their land, which was pledged for the security of the money borrowed; but when credit is once established, this regulation has no other effect, than to oblige landlords to borrow so much dearer than other people, who have no retention to claim. Where indeed credit is precarious, such a regulation may be considered as a premium for good security.

In general, I believe, we may safely determine, that all attempts to lay a tax upon the income of so fluctuating a property as money, where the capital is demandable, will prove unsuccessful.

The case is different, when the capital is not demandable, as has been observed in the end of the 8th chapter upon public credit; where we were suggesting a reason for taxing the interest of national debts, when grown up to the full amount of all the income of a country. But a material distinction was there made, between those debts which were supposed to be consolidated into a permanent property, and the new contracts which were to be considered as debts constituted upon that property.

We see, therefore, the extent of cumulative taxes upon possessions which produce an income. Let us next examine how they may be made to affect other articles.

We have observed how improper, and how contrary to principles it is, to impose proportional taxes upon those branches of sale, which do not change the balance of wealth between the contracting parties. Yet cumulative taxes may then take place; because there is no reason to make them general, or proportional.

When lands, for example, carry titles along with them, as is the case in many countries; and when, as with us in Scotland, they carry a right to vote for a member of parliament, a very heavy tax might be imposed upon the alienation of them. The same may be said of every other estate which requires a feudal investiture to complete the right. Thus the Lods et Vente in France, which is a proportion of the price of such lands due to the superior or lord-paramount of the fee, amounting in many cases to the sixth part of the price, is a hint for a cumulative tax to be raised upon the alienation of this kind of property.

Were cumulative taxes properly laid upon personal service, a regularity in levying them at short intervals, and according to some determinate proportion, would do a great deal towards communicating to them all the advantages of those of the proportional kind.

Thus a tax laid upon those who work by the day, may be levied
in such a manner as to be tolerably easy. A penny a day (or more if necessary) paid by every industrious man, regularly, once a week, would soon enable him to raise his price in that proportion. But then deductions must be allowed for all accidental impediments; and were a plan to be concerted, many other considerations would enter into it, which it would be superfluous here to mention, and which, perhaps, may occur in another place.

The two articles which, in analyzing the extent of proportional taxes, we observed had escaped that imposition, to wit, money locked up, and the pure profits on trade constantly accumulated into the stock, are equally ill adapted to bear a cumulative tax. I can see no way of taxing money locked up, any more than money lent, without opening a door to the greatest oppression. And as to the pure profits on trade, although they appear to be income, I rather consider them as stock, which, according to principles, ought not to be taxed. My reason for not considering them as income, is because we have supposed them to be accumulated by the merchant into his trading stock. They resemble the annual shoots of a tree, which augment the mass of it, but are very different from the seed or fruit which is annually produced, and is annually separated from it. If they be spent by the merchants, then they are undoubtedly income, and will be affected by proportional taxes; but as they may also not be spent, and become stock, the cumulative tax will affect them in both cases.

Chap. X

Are Taxes a Spur to Industry, as some pretend?

It is not easy to find out, a priori, how taxes should prove a spur to industry. What makes several people adopt this opinion is rather from their feelings, in consequence of many circumstances arising from experience, than from what reason, or the nature of the thing, has pointed out. But as nothing can be produced without an adequate and natural cause, let us examine this political problem, by an application of the principles we have laid down in the former chapters. If these be just, we shall discover by them, how it happens that in countries where taxes are high, where living is dear, and where every circumstance seems to render the means of subsistence difficult to obtain, people live in the greatest plenty, are best and most easily subsisted, and that industry there makes the greatest progress.

For the solution of this question, let us call to mind the principles which influence the multiplication of mankind, and the increase of labour and industry, laid down in the first book. We there explained how the wants of mankind promote their multiplication.

Money, the instrument of alienation, was represented as the primum mobile in this operation; a desire in the rich of acquiring every thing with money, that is demand, was shewn to be the spur to industry in the poor. It was said, that if riches did not inspire a taste for luxury, that is for the consumption of the labour of man, these riches would not circulate; and that they would then be adored rather as a god, than made subservient to the uses of men.

Connect herewith that the imposition of taxes is a method of bringing money into circulation; that those of the proportional kind have the effect of drawing from the rich an additional price upon every thing they buy, which goes for the use of the state,
and which otherwise would not have entered into circulation at that time.

From these principles, I conclude, that taxes promote industry; not in consequence of their being raised upon individuals, but in consequence of their being expended by the state; that is, by increasing demand and circulation.

From the principles above laid down, I cannot discover the shadow of a reason, to conclude that taking arbitrarily away from some individuals, a part of their gains by cumulative taxes, or proportionally from others, by augmenting the price of what they buy and consume, must in any respect imply an incitement in the consumers to demand more; and without this it never can excite the industrious man to augment the supply.

I readily allow that every one who has been obliged to pay a tax, may have a desire to indemnify himself of the expence he has been put to, by augmenting his industry; but if, on the other hand, taxes have put every one to a considerable additional expence, in proportion to his income, it would be absurd to allege this diminution of his fortune, as the cause of a desire to augment his consumption; and unless the rich do augment their consumption, the poor cannot augment their industry.

Examine, on the other hand, the use made by the state of the money raised, and you will easily perceive the justness, I think, of the above mentioned principles. This money belongs to the public, and is admastered by private people. Public expence is defrayed with a full hand; they who bestow the money, bestow it for the public, not for themselves; and they who work for the public, find, or ought to find, the greatest encouragement to be diligent.

Every application of public money implies a want in the state; and every want supplied, implies an encouragement given to industry. In proportion, therefore, as taxes draw money into circulation, which otherwise would not have entered into it at that time, they encourage industry; not by taking the money from individuals, but by throwing it into the hands of the state, which spends it; and which thereby throws it directly into the hands of the industrious, or of the luxurious who employ them.

It is no objection to this representation of the matter, that the persons from whom the money is taken, would have spent it as well as the state. The answer is, that it might be so, or not: whereas when the state gets it, it will be spent undoubtedly. Besides, had it been spent by individuals, it would have been laid out for the supply of private wants, which are not near so extensive as those of the public: and farther, when money is so taken from rich individuals, it obliges them to find out a way of procuring more, out of their solid property; and when this facility is not procured for them by their statesman, we see how taxes become both oppressive and ill paid. On the contrary, when it is provided, either by the returns of foreign trade, which greatly augment the coin of a country; or by banks, which melt down property into paper circulation; we see taxes augmenting constantly, without creating any impediment to consumption, or discouragement to industry. All these consequences hang in a chain, and hence may be gathered the solidity of the principles upon which they depend.

After this solution of the question proposed, let those who are versed in history lay circumstances together and examine whether facts do not prove the truth of what I have been saying.

Chap. XI
Considerations upon Land-Taxes, with some Observations upon those of England and France

Of all the kinds of cumulative taxes, that which is properly imposed upon lands seems to be the best: that is, to imply the fewest inconveniences to the persons paying, and to the state in raising it. That it is an unequal imposition is plain and certain: this character is unavoidably attached to every species of cumulative taxes, in one way or other. It has also the effect of casting a general discredit upon the purchase and improvement of land; because the proprietors are naturally exposed to augmentations, which may, almost with the same ease, be carried to the total amount of the income, as to any proportional part of it. This has been mentioned in a former chapter, where the interest of a nation’s debts was supposed to increase so as to equal the value of all the land-rents, and the whole revenue of individuals.

Land-taxes are imposed in various forms in different countries, and all are supposed to bear a determinate proportion to the rent. This, however, is never, nor indeed can it ever be the case. The value of land is varying perpetually, from the industry of the inhabitants. Besides this inequality, there are other inconveniences proceeding from the unequal distribution of property. In Scotland, for instance, land is divided into large portions; very few small lots are to be found. The class of farmers, for the most part, labour the lands of others, who have large possessions. This is less the case, I believe, in England, and still less in France and in Germany. A land-tax, therefore, being supposed universal, would, in Scotland, do little harm: in England, it would fall heavier upon the small proprietors; because the sum exacted would bear a greater proportion to the supposed superfluity of the proprietor. In France, it would still be worse; for there the exemptions of the numerous class of nobles, and many other circumstances mentioned above, would entirely destroy even the shadow of proportion. It is out of my way to enter into any long detail upon this head, with respect to different countries.

I shall therefore confine myself to a very few observations upon the method of laying this tax in England; and upon a project which has been long in agitation in France, to raise their land-tax by way of tithe upon the fruits.

This scheme was first proposed to the late King of France by the Marechal de Vauban, in 1699, and the proposal was renewed some years ago in a performance called the Reformateur. But as it would prove hurtful and burdensome to France, in a great degree, from a circumstance which has not been attended to by these authors, the examination of this system of taxation will serve as a good illustration of this part of our subject.

The land-tax in England has, I think, two remarkable defects. First, The sums imposed at certain rates, upon every district of the kingdom, whether cities, towns, universities, or open country, even upon the King's palaces, inns of court, &c. are not distributed according to any rule of proportion upon the property of individuals; but this operation is left to assessors.

Secondly, All personal estates, except property in the public funds, and stock upon land, supposed necessary for agriculture, are charged in the same proportion as land-rents.

Chap. XII

Miscellaneous Questions relating to Taxes
Quest. 3. What is meant by income, relatively to individuals, or to a state, and what is the nature of the expence which must diminish it, when it is considered as the object of taxation?

The great intricacy of this question proceeds from hence, that what is really an expence to one is the income of another: so that without applying our reasoning to every particular fact, no general explanation can be rendered intelligible. My reason for proposing it in this place is, that in commenting upon some passages of Davenant, in his discourses upon the revenues of England, I may have an opportunity of illustrating some things which have been already examined.

Davenant was an admirable writer; he had a remarkable genius for political theory, and his sentiments upon many things are very generally adopted. My intention here is not to refute his opinions, but to avail myself of his combinations, in order to explain my own ideas.

In his first discourse upon revenues, we find the following passage.

'The number of the people leads us to know what the yearly income may be from land, and what from mines, houses, and homesteads, rivers, lakes, meers, ponds, and what from trade, labour, industry, arts and sciences: for where a nation contains so many acres of arable land, so many of pasture and meadow, such a quantity of wood and coppices, forests, parks and commons, heaths, moors, mountains, roads, ways, and barren and waste land; and where the different value of this is computed, by proper mediums, it is rational to conclude, that such a part of the people's expence is maintained from land, &c. and such a part from mines, houses, &c. and that such a part is maintained from trade, labour, &c. and the poor exceeding so much the rich in numbers, the common people are the proper medium by which we may judge of this expence.'

'There is a certain sum requisite to every one for food, raiment, and other necessaries; as for example, between 7 and 8 l. per annum; but some expending less, and some more, it may not be improper to compute, that the mass of mankind, in England, expend, one with another, near 8 l. per annum: from whence it may be concluded, that an annual income of so many millions is needful for the nourishment of such and such a number of people.'

The reasoning here takes a wrong turn. It is of no consequence to compute the value of things consumed without alienation. It is of no use to know that the value of the physical-necessary of an Englishman is 8 l. a year; because if this sum be supposed to be an exact quantity of income, not one farthing of tax can come out of it. So that imposing, for example, 5 per cent upon this article would be raising only the physical-necessary to 8 l. 8s. which 8s. must be paid, not by the physical-necessarian, but by somebody having superfluity who employs him: and if there were not superfluity enough in England to answer to 8s. a head, such a tax could not be levied.

He afterwards supposes that the income of this class may amount to about twenty millions a year, which at 8 l. each, answers two millions and a half of people. He states the income of lands at fourteen millions, and the income of trade at ten millions, in all at forty-four millions a year: and hence he concludes, that taxes ought to be imposed in some proportion to this total.

Now if he suppose the first article of twenty millions, arising from the income of those who are employed in arts and manufactures, according to the former calculation of 8 l. a head,
to be as ready a fund for taxation as the land-rents, we must
examine, by the principles we have deduced, whether there be any
ground for such a supposition.

Let me suppose one of this great class to work a whole day
for his victuals only. Here is an alienation of work for food. It
is impossible, however, to raise a tax in money upon this
alienation; because it may easily be supposed that neither party
has a farthing. The only method therefore, for imposing a tax in
such a case, would be, either to oblige the workman to set apart
a portion of his day's work for one who would pay the public for
the value of it; or to oblige the person who gives him his food,
to pay the public for the privilege of employing him in his
service. The one and the other are examples of proportional
taxes. But this method of taxation is absolutely unknown. In this
example there is an alienation, which, I have said, constantly
implies a superfluity of one kind or other. The labour of the
person working is, here, superfluous to himself; therefore a part
of it may be applied towards the public. But the bread he
receives is in no part superfluous, and therefore cannot be laid
under taxation as to him. But then the bread given for the labour
is superfluous to the person who gives it; and as this implies
that he has a superfluity of bread, the state may demand a share
of this superfluity.

By this exposition of the matter it appears, that in order to
raise a tax, in whatever way it be done, some kind of superfluity
must be supposed. It also points out how it should be laid on:
for if by mistaking the proper object, a part of the bread should
be taken from the workman, instead of being taken from the man
who employs him, the tax would affect the physical-necessary of
the labourer, instead of affecting the superfluity of the
employer.

Let us next suppose a workman able to do no more than what is
requisite to dig the ground for roots to eat, instead of digging
it to procure bread from a man who has bread to spare; still
there will be no alienation; consequently, no possibility of
establishing a tax: for if you either take a part of his labour,
or of his food, you deprive him equally of his
physical-necessary. Yet the work of this man, and his food, may
be valued at so much money; and thus may enter, in one sense,
into Davenant's general article of income or expence; but it does
not follow that any tax can be raised upon such an income.

To estimate, therefore, the total value of what is the object
of taxation, we must go another way to work. The first article
must be the annual income of all funds. By funds, here, I
understand the capital wealth already made, in opposition to the
produce of industry, which may be considered as the materials of
which such funds are composed. The fund therefore is the
accumulation of savings, which, not having been spent by the
industrious, form a capital of a nature to produce an income,
either from land, or from any other valuable thing. Thus
land-rents, annuities, interest of money, emoluments of offices,
salaries, even wages of servants, in short, every fixed income, I
range in this first article, which I call annual income, produced
from a capital already formed, either real or supposed.

This may be laid under taxation by a pound-rate or otherwise,
and forms that kind of tax which I call cumulative and arbitrary;
because a man who has any sort of visible revenue, comes under
this general rate, let him have ever so many necessary deductions
out of it, ever so many debts and incumbrances. From such
circumstances, cumulative taxes frequently turn out extremely
burdensome.
The second object of taxation is upon alienations made for money. Whenever we come to dispose of money in the purchase of any thing, the state has an opportunity of exacting a part of it as a tax; but while it remains hid, it can neither be come at, or laid under contribution, without extortion or violence.

All branches of expence may be laid under taxation by excises, which I call proportional taxes; because a man is never subjected to them, but in proportion to his expence; and his expence ought naturally to proceed from his income.

As for trade, I do not clearly see how the profits of it can be regularly taxed. In France, indeed, they are taxed under the first head, and are considered as an income. Such an imposition is not well judged; because there the materials for making the fund are taxed as if they were the income of a fund already made. The savings only out of the profits upon trade, placed so as to produce a permanent revenue are, what can properly be considered as a fund: the income therefore of these savings and not the savings themselves, should come under this branch of taxation.

Customs are improperly called taxes upon trade. When ill imposed they may stop trade, or render it less profitable by diminishing the demand for the goods so taxed; but they can take nothing from the profits already made.

In a trading nation, the great branches of commerce produce a certain determinate profit, subject, I allow, to augmentations and diminutions, from accidents and circumstances impossible to be foreseen: and the customs imposed upon exportation and importation differ from excises more in the method of levying them than in any thing else.

Davenant, in my opinion, would have given a better idea of the sum which taxes might have produced in England, had he examined the amount of all the branches of revenue, and of all the species of sale, than in the manner he has done. These two points known, it would be expedient next to inquire, in what manner the several articles could be made subject either to cumulative, or proportional taxes.

I must now take notice of another passage of Davenant, where he explains himself upon the question before us: it is in his fifth discourse upon revenues, where he says,

'By annual income, we mean the whole that arises in any country from land and its product, from foreign trade, and domestic business, as arts, manufactures, &c. and by annual expence we understand what is of necessity consumed to clothe and feed the people, or what is necessary for their defence in time of war, or for their ornament in time of peace: and where the annual income exceeds the expence there is superlucracion arising, which may be called wealth or national stock. The revenue of a government is part of this annual income, as likewise a part of its expence, and where it bears too large a proportion with the whole, as in France, the common people must be miserable and burdened with heavy taxes.'

I must comment a little upon this passage.

I have no objection to this exposition of the matter; the ideas are intelligible and clear: but I object against the application of his doctrine to taxes; because it would lead to error. Here are my reasons:

First, Income is called the whole of the earth's productions: this I may admit to be just, except when we consider income as an object of taxation. But if we retain the same definition to express the income of one, for example, who labours the soil for his own subsistence, as well as of another who labours it as a trade, the difference in paying their taxes out of it will be
very great. He who draws nothing from the ground but his
physical-necessary, can be laid under no taxation; because he has
no superfluity. And if he be obliged either to give a part of his
crop in tax, or to sell any part of it for money to be paid to
the public, this diminishes his physical-necessary, and forces
him to starve: whereas the other, who exercises agriculture as a
trade, may be obliged to pay a part of his surplus by way of tax
or rent; and still his physical necessary may remain untouched.

It is for this reason, that in treating of these matters, I
am always at the greatest pains to point out, that nothing can be
the object of taxation, except what is over and above the
physical-necessary of every one.

In all countries where a land-tax, steuer, taille, or by
whatever name it goes, is established, care must be taken to
prevent the husbandmen from confining their labour to such a
small spot of ground as is barely sufficient to produce their own
physical-necessary, unless when they have a trade to assist them
in paying what the public demands of them.

From this circumstance, and this only, it happens, that the
land-tax in England is so little burdensome, comparatively to
what it is in many nations of Europe. Lands in England are let in
large portions: nobody will let a farm so small as to be
proportioned to the supplying of the mere physical wants of the
farmer. But in other countries, where the oeconomy is different;
where inheritances in land are constantly divided, as moveables,
among all the children; the lots become so small, that the
proprietor can draw no more from them than his own subsistence;
and then when a land-tax is imposed, this poor little portion
being valued in proportion to what it can produce, as well as the
greatest estate in land, the husbandman is starved, although the
tax demanded of him be laid on in the exact proportion to the
produce of his land, while he that has a surplus is quite easy.

I would therefore recommend, in countries where this minute
subdivision of lands has taken place, that for the future no lot
under a certain extent or value should be suffered to be divided
among the children, but ordered to be sold, and the price divided
among them; and that the same regulation should be observed upon
the death of such proprietors whose lands are not sufficient to
produce three times the physical-necessary of the labourers. This
would engage a people to exercise agriculture as a trade, and to
give over that trifling husbandry which produces no surplus, and
which involves so many poor people in the oppression of
land-taxes. This regulation never can be recommended in a plan to
be executed all at once: it must be done by degrees, and in
proportion to the progress of industry. The principle is so
evident, that I never found any one who did not immediately agree
to the justness of my observation; although in imposing
land-taxes I have nowhere found it properly attended to.

Here then is the use of theory; it directs us in practice to
avoid difficulties, which might otherwise be judged
unsurmountable.

Secondly, I farther observe, that it is a more hurtful error
still to mistake the produce of industry for the taxable income
arising from it, than to mistake the gross produce of land for
the rent: because the profits upon industry bear frequently a
smaller proportion to its produce, than the rents of lands do to
their full fruits.

The best method of raising money upon the lower classes of
the industrious is rightly to lay their consumption under
proportional taxes, which they may easily draw back; because they
will raise the price of their work proportionally.
From this we may conclude, contrary to the common opinion, that the test of well imposed taxes is to raise prices in proportion. When they are rightly imposed, every one who sells a commodity which has paid a tax, will draw it back, whether he be industrious or not. If he consume it, he cannot draw it back, but by raising the price of his work; which again he cannot do, unless the tax be made so general as to affect all his competitors; and unless the consumption he had made be unavoidable to every one of them.

When we reflect upon the large quantities of exciseable goods which are consumed as superfluities, we must conclude that the rise of prices, daily complained of, proceeds more from our manners than from the taxes we pay.

Thirdly, the expence of a people is not merely what is sufficient to subsist them; but what they consume, either in fruits or manufactures. Had indeed Davenant computed the value of this necessary quantity, and deducted it from the income, according to his acceptation of income, the remainder would have been a tolerably good representation of what I mean by income, or taxable fund; because whatever a people consume beyond the necessary, I consider as a superfluity which may be laid under taxation.

Fourthly, I must also differ from him in his idea concerning superlucration, wealth, or national stock.

According to him, this is the quantity of income remaining after the following deductions: First, What is necessary to clothe and feed the people. Secondly, What is necessary for their defence in time of war, and ornament in time of peace. But according to my notions, I must also deduct all which is consumed in superfluities; for what is consumed, whether necessarily or superfluously, never can make an article of superlucration, wealth, or national stock.

The superlucration then of a nation consists in the augmentations made upon her stock of every kind, capable of producing a proportional income: it is the converting into something durable the well employed time of the inhabitants. In this sense the new pavement of London, the roads, buildings, ships, etc. in England, are all articles of superlucration, as well as the improvement of the lands, and consolidation of the balance of her trade, which has created that part of the public funds belonging to natives.

Every one who has written concerning taxes has endeavoured to contract the object of them as much as possible: more, I imagine with a view to ease the public than the people. I have followed another course. I have been for multiplying the objects of taxation as much as possible, and for making them more in proportion to expence than to property or income. But that I may conform myself in some measure to the ideas of those who have examined the same subject, I shall propose a tax, which would fill up the place of every other; and could it be levied, would be the best perhaps ever thought of.

It is a tax, at so much per cent upon the sale of every commodity.

NOTES:

1. The corvée in France is the personal service of all the labouring classes, for carrying on public works. Were they paid for in money, it is computed they would amount to no more than 1,200,000 livres a year. This tax was omitted in the account of the French revenue.
2. The gentlemen of the Monthly Review for August 1767, p. 120, have proposed an objection to the doctrine here laid down; I shall therefore insert the passage, and endeavour a reconciliation of opinions, which is a more laudable attempt, than the most successful refutation.

"In the discussion of so difficult and complex a subject as this of taxes (say these gentlemen) great care should be taken that the foundation be laid upon solid principles; and that nothing be admitted upon the authority of the inquirers, because the smallest error in first principles must lead to great mistakes and confusion in the subsequent parts of the inquiry. When our author says that taxes ought to impair the fruits and not the fund; and represents this as a fundamental principle of taxation - we should have wished to have seen the reason upon which this principle is founded; as in our apprehension it wants much of the clearness of an intuitive truth - And we own it appears to us that every man whose goods are embarked in the political vessel, risks the whole; and in equity, as in all other cases of insurance, ought to pay, in the language of commercial policies, as interest may appear: which will be in proportion to the whole risk, and not in proportion to the profits, or fruits. Those whose funds are the production of artificial society, or protected by the laws of entail, even against the effect of their own folly and extravagance, ought, in our opinion, to pay for their extraordinary care and security, these being benefits which the laborious man has no share in, and which he lies under no obligation to support with the fruits of his industry. For this purpose what our author calls cumulative taxes may with great justice and propriety be applied."

On these judicious remarks I must observe, that nothing is more requisite, in the perusal of this work, than a strict attention to the manner of establishing every principle. This was my particular care in the composition of it, and every oversight in this respect will be the object of a judicious criticism.

I must now examine whether, in this place, I have failed in exactness, as it is here insinuated; or whether my critics have misunderstood the meaning of my words. As for the authority of my opinion, I perfectly agree with them that it should go for nothing. I have said that it is a fundamental principle in taxation that the fruits not the funds are to be impaired by the tax. In this I speak strictly in terms of my definition of a tax, inserted in this very Review, p. 119. A tax it is there said is a certain contribution of fruits service or money imposed on the individuals of a state, &c.

By the words fruits and service, the fund bearing the fruit, and the person serving, are evidently supposed to be exempted; and in the paragraph following, the money exacted is said to comprehend the equivalent given for what may be exacted in the other two ways. So according to this express definition all impositions on funds must be classed under a different head from taxes; and these I have called contributions.

My reason for excluding in my definition of a tax, all contributions from funds, such as that made by the Dutch, is that they cannot, by their nature, be annual and perpetual, as taxes, which affect growing fruits only, may easily be. Were such contributions out of property, to be annually levied, over and above the full extent of the value of the fruits or income; the contributors would be reduced to beggary; and the taxable fund itself would in time, become the property of the state. Is it
possible that the authors of the Monthly Review should wish, in any case, to see taxes carried beyond the extent of any person's income or profits on his trade and industry? Surely, not: and therefore I must suppose that they have not rightly understood my meaning; though I cannot discover where any ambiguity lies.

When a man pays insurance, as interest may appear, upon a cargo which runs a risk of being totally lost, this case seems to be parallel to that of a person who runs the risk of losing his whole landed estate by a foreign invasion. In this case, indeed, as in the former, he would no doubt willingly give to the conqueror one half of his lands to secure the other; but such a case conveys, I think, no idea of a tax; nor does property, in any country I know, stand on so precarious a footing as to make it reasonable.

Thus far I have said in explanation of my meaning, and in justification of the principle, or rather of the definition by which it is implied, that taxes should impair the fruits only, and not the fund.

I now willingly agree with the gentlemen of the Review, that entailed property may very reasonably be taxed higher than any other, on account of the additional security. But still this augmentation must fall within the income of the entailed lands; because, should it exceed it, it would destroy the entail itself, which makes the fund unalienable. As to funds, which these gentlemen call the production of Artificial Society, I can say nothing; I do not understand this term, and I even take it to be an error of the press.

Upon the whole, I confess that my anxiety concerning the opinion of the public, in relation to my inquiries into the principles of taxation, was, lest they should be found to extend too far: It gives me a particular satisfaction to find that, by some, they are not thought to extend far enough.

3. The Taille is properly a land-tax, to which men called noble are not subjected. The reason of which is, that it was originally imposed in lieu of such personal military services as were peculiar to the lower classes.

The Fourage and Ustencil are laid upon all those who pay the taille, and are in proportion to it. The first is appropriated for the subsistence of the cavalry, when they are in quarters; the last for kettles and small utensils for the infantry.

The Capitation is the poll-tax. The Dixiemes and Vingtiemes have been already explained, and tithes are well known to every one.

The Industrie is that imposition arbitrarily laid on by the Intendants of provinces, upon all classes of industrious people, in proportion to their supposed profits in every branch of business.

4. This sort of taille is called tariffée; because it is imposed according to a valuation of the land. It is a late improvement; but still is exposed to numberless inconveniences, which are mentioned in the text.

5. The gabelle is a branch of the general farms, and consists of an excise upon salt. The manufacture of the commodity is in the hands of the farmers; and they, for a liberty to sell salt at a certain price, far above the expence of the manufacture, pay to the King an annual revenue of 28 millions of livres.

This I call a proportional tax, relatively to consumers; although in reality no tax-gatherers be employed for the
collection of it, contrary to what is the case of all excises; which are seldom farmed by government to the manufacturers of the commodity taxed.

The traittes, or, as they are otherwise called, the five great farms, were established by Colbert, when he took away a multitude of customs paid upon the transportation of goods from one province to another. They, the traittes foraines at least, resemble very much our customs, or the duties of tunnage and poundage, and are let to the farmers general for the sum of 12 millions.

The tobacco is of the same nature with the salt tax. The farmers general have the exclusive privilege of selling it at a price fixed by the King.

For the farm of the tobacco are paid 15 millions.

The aides resemble our excises more than those we have mentioned. They consist in duties upon liquors, either brought into towns, or sold by retail in public houses; and upon all articles of food sold in corporations, except grain of every kind, which is free. They comprehend also a multitude of other duties superfluous to enumerate.

They are collected by tax-gatherers at the gates of every town, who also have access to all public houses, where retail is laid under additional rates. The aides are farmed at 38,600,000 livres. These were the rates in the farms let in 1755. They have been since augmented in 1762, as has been observed.

6. When excises are imposed upon any commodity, it is contrary to all principles in fixing the assize, not to superadd the whole duty imposed to the former selling price. This however is sometimes omitted, with an intention to make part of the duty fall upon the manufacturer, to the ease of the subject. The consequences are,

First, The manufacturers blow up the spirit of the people against the tax, who never would think of making an outcry, were they not excited to it by the interested motives of the manufacturers. Were high profits allowed to manufacturers on imposing the tax, they would be quiet: and if the profits were afterwards found to be too high, it would then be a popular measure to reduce the selling price, and also a means of setting people on the side of government, against the manufacturers, who are their real tax-gatherers.

Secondly, It is impossible to compass the end proposed. A proportional tax, rightly imposed, must be drawn back; and all attempts to prevent it, occasion only a multiplication of frauds, and a bad manufacture.

In fixing assizes upon the manufacturing of goods, which in different years vary in their price, regard should be had to such variations; otherwise the manufacturer will be distressed, and the public will be ill served: in either of which cases, the people will be animated against such duties.

The only expedient to share the profits of the manufacturers of exciseable commodities, is to lay them under some cumulative tax which they cannot draw back, such as making them pay for a licence.

7. It must, however, be observed, that the price of beer was not raised, either by the brewers, or by the victuallers, on account of the additional malt-duty, 1760.

8. The gabelle, or salt-tax in France, is not levied in every province; because of certain privileges of exemption, which some
have all along enjoyed.

This opens a door to the greatest abuse, by smuggling salt from places where it is free, into places where the tax is imposed, at many 100 per cent above the value; and obliges the King to use great severity upon those who are loaded with this duty.

The consumption of every family is fixed to a certain quantity; and if it be found that they have not bought, from the King's granaries, to the full extent of what is reckoned necessary for them, it is supposed that the deficiency has been made up from contraband salt, and the deficiency is exacted.

9. Examples of these kinds of taxes were familiar in former times. Vassals were obliged to grind in their lord's mill, bake in his oven, press their wine in the public press of the territory, etc.

This was found very useful, in ages when alienation and sale were little known; but now they are considered as oppressive, and so I think they are, when compared with proportional taxes, which take place upon the sale only of the commodity: but still they are far preferable to many taxes of the cumulative kind.

10. Two gentlemen in France exchange casks of their wine, they are both obliged to pay a tax upon removing the wine from their cellar. This duty is called Remuage.

11. A man's rank, in a modern society, seems to be determined more according to his birth, or to his expence, than according to his stock, or income.
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