



Of Money, and Other Economic Essays

Hume, David

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About Hume:

David Hume (1711–1776) was a Scottish philosopher, historian, economist, and essayist, known especially for his philosophical empiricism and scepticism. He was one of the most important figures in the history of Western philosophy and the Scottish Enlightenment. Hume is often grouped with John Locke, George Berkeley, and a handful of others as a British Empiricist. He changed the spelling of his name from the Scottish "Home" in 1734, because "Home" was pronounced as the English pronounced "Hume", which was not known in England. Hume attended the University of Edinburgh at the unusually early age of twelve (possibly as young as ten) at a time when fourteen was normal. At first he considered a career in law, but came to have, in his words, "an insurmountable aversion to everything but the pursuits of Philosophy and general Learning; and while [my family] fancied I was poring over Voet and Vinnius, Cicero and Virgil were the Authors which I was secretly devouring." He had little respect for the professors of his time, telling a friend in 1735, "there is nothing to be learnt from a Professor, which is not to be met with in Books." He found employment at various times as a merchant's clerk and as a tutor, while continuing to study philosophy and write his works, the first of which, *A Treatise of Human Nature*, he completed at age 26. It was not well received by critics in Great Britain. In 1744 Hume applied for the Chair of Pneumatics and Moral Philosophy at the University of Edinburgh. However, the position was given to someone else after Edinburgh ministers petitioned the town council not to appoint Hume because he was seen as an atheist. Later, Hume was charged with heresy, but he was defended by his young clerical friends, who argued that — as an atheist — he was outside the Church's jurisdiction. Despite his acquittal, Hume failed to gain the chair of philosophy at the University of Glasgow. Hume wrote on the subjects of philosophy (especially on epistemology — how one knows something to be true), religion, history, and politics. Through his discussions on politics, Hume developed many ideas that are prevalent in the field of economics today. This includes ideas on private property, inflation, and foreign trade. Referring to Hume's essay "Of the Balance of Trade," Paul Krugman (a Nobel-prize-winning economist) has remarked "...

David Hume created what I consider the first true economic model." (Reference: Wikipedia)

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- *Dialogues Concerning Natural Religion* (1779)

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Preface to the Feedbacks Edition.

DAVID HUME is known for his philosophical writings, but he also wrote on politics, history, and economics. This eBook contains 7 economic essays which were first published in Hume's *Political Discourses* (1752) and again in *Essays and Treatises on Several Subjects, Volume 1* (1777). One essay has been praised by the Nobel-Prize-winning economist, Paul Krugman, who said in his newspaper column:

"... Hume also helped found economics: his 'Of the Balance of Trade', published 34 years before *The Wealth of Nations*, was arguably the first example of modern economic reasoning, based on what amounts to a stylized model, albeit one without any equations or diagrams." (*New York Times*, 8 May 2011, "Hume Day".)

... "You could argue that modern economics really began with David Hume's 'Of the Balance of Trade', whose core is a gloriously clear thought experiment... ." (*ibid.*, 2 Feb 2011, "Models, Plain and Fancy".)

Adam Smith, the author of *The Wealth of Nations* (1776), is commonly considered the "father of modern economics", but Hume pre-dated Smith in that regard. Both were Scottish philosophers of the Scottish Enlightenment, and although Hume was a decade older than Smith, they became lifelong friends after they met in 1750.

These essays cover Commerce, Money, Interest, Balance of Trade, Jealousy of Trade, Taxes, and Public Credit. Hume explained economic phenomena that we observe even today, such as the eventual self-correction of job migration to lower cost countries, money supply issues, the undesirable results of tariffs, military buildup in underdeveloped countries, the relationship between wages and labor supply, and other topics that give insights into the happenings we read about in the news almost daily.

Editorial Note.

The chapters of this eBook were extracted from Hume's collection titled *Essays and Treatises on Several Subjects, Volume 1*, in 1777, reformatted for eBook style.

The Introduction was actually included by Hume as the first portion of his essay "Of Commerce" but here it has been relocated from that chapter into its own section because it is appropriate to the entire collection, not just the commerce essay.

The entire original text of Hume's volumes may be seen at the website www.davidhume.org, from which this eBook was derived. Terms of that website require that the content of this eBook not be used for commercial purposes, only for personal and educational purposes. The full terms of use are published on www.davidhume.org.

Stanley M. Sokolow,
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Introduction.

THE greater part of mankind may be divided into two classes; that of *shallow* thinkers, who fall short of the truth; and that of *abstruse* thinkers, who go beyond it. The latter class are by far the most rare: and I may add, by far the most useful and valuable. They suggest hints, at least, and start difficulties, which they want, perhaps, skill to pursue; but which may produce fine discoveries, when handled by men who have a more just way of thinking. At worst, what they say is uncommon; and if it should cost some pains to comprehend it, one has, however, the pleasure of hearing something that is new. An author is little to be valued, who tells us nothing but what we can learn from every coffee-house conversation.

All people of *shallow* thought are apt to decry even those of *solid* understanding, as *abstruse* thinkers, and metaphysicians, and refiners; and never will allow any thing to be just which is beyond their own weak conceptions. There are some cases, I own, where an extraordinary refinement affords a strong presumption of falsehood, and where no reasoning is to be trusted but what is natural and easy. When a man deliberates concerning his conduct in any *particular* affair, and forms schemes in politics, trade, oeconomy, or any business in life, he never ought to draw his arguments too fine, or connect too long a chain of consequences together. Something is sure to happen, that will disconcert his reasoning, and produce an event different from what he expected. But when we reason upon general subjects, one may justly affirm, that our speculations can scarcely ever be too fine, provided they be just; and that the difference between a common man and a man of genius is chiefly seen in the shallowness or depth of the principles upon which they proceed. General reasonings seem intricate, merely because they are general; nor is it easy for the bulk of mankind to distinguish, in a great number of particulars, that common circumstance in which they all agree, or to extract it, pure and unmixed, from the other superfluous circumstances. Every judgment or conclusion, with them, is particular. They cannot enlarge their view to those universal propositions, which comprehend under them an infinite number of individuals, and

include a whole science in a single theorem. Their eye is confounded with such an extensive prospect; and the conclusions, derived from it, even though clearly expressed, seem intricate and obscure. But however intricate they may seem, it is certain, that general principles, if just and sound, must always prevail in the general course of things, though they may fail in particular cases; and it is the chief business of philosophers to regard the general course of things. I may add, that it is also the chief business of politicians; especially in the domestic government of the state, where the public good, which is, or ought to be their object, depends on the concurrence of a multitude of causes; not, as in foreign politics, on accidents and chances, and the caprices of a few persons. This therefore makes the difference between *particular* deliberations and *general* reasonings, and renders subtilty and refinement much more suitable to the latter than to the former.

I thought this introduction necessary before the following discourses on *commerce, money, interest, balance of trade, &c.* where, perhaps, there will occur some principles which are uncommon, and which may seem too refined and subtile for such vulgar subjects. If false, let them be rejected. But no one ought to entertain a prejudice against them, merely because they are out of the common road.

Chapter 1

Of Commerce.

The greatness of a state, and the happiness of its subjects, how independent soever they may be supposed in some respects, are commonly allowed to be inseparable with regard to commerce; and as private men receive greater security, in the possession of their trade and riches, from the power of the public, so the public becomes powerful in proportion to the opulence and extensive commerce of private men. This maxim is true in general; though I cannot forbear thinking, that it may possibly admit of exceptions, and that we often establish it with too little reserve and limitation. There may be some circumstances, where the commerce and riches and luxury of individuals, instead of adding strength to the public, will serve only to thin its armies, and diminish its authority among the neighbouring nations. Man is a very variable being, and susceptible of many different opinions, principles, and rules of conduct. What may be true, while he adheres to one way of thinking, will be found false, when he has embraced an opposite set of manners and opinions.

The bulk of every state may be divided into *husbandmen* and *manufacturers*. The former are employed in the culture of the land; the latter work up the materials furnished by the former, into all the commodities which are necessary or ornamental to human life. As soon as men quit their savage state, where they live chiefly by hunting and fishing, they must fall into these two classes; though the arts of agriculture employ *at first* the most numerous part of the society.¹ Time and experience improve so much these arts, that the land may easily maintain a much greater number of men, than those who are immediately

employed in its culture, or who furnish the more necessary manufactures to such as are so employed.

If these superfluous hands apply themselves to the finer arts, which are commonly denominated the arts of *luxury*, they add to the happiness of the state; since they afford to many the opportunity of receiving enjoyments, with which they would otherwise have been unacquainted. But may not another scheme be proposed for the employment of these superfluous hands? May not the sovereign lay claim to them, and employ them in fleets and armies, to encrease the dominions of the state abroad, and spread its fame over distant nations? It is certain that the fewer desires and wants are found in the proprietors and labourers of land, the fewer hands do they employ; and consequently the superfluities of the land, instead of maintaining tradesmen and manufacturers, may support fleets and armies to a much greater extent, than where a great many arts are required to minister to the luxury of particular persons. Here therefore seems to be a kind of opposition between the greatness of the state and the happiness of the subject. A state is never greater than when all its superfluous hands are employed in the service of the public. The ease and convenience of private persons require, that these hands should be employed in their service. The one can never be satisfied, but at the expence of the other. As the ambition of the sovereign must entrench on the luxury of individuals; so the luxury of individuals must diminish the force, and check the ambition of the sovereign.

Nor is this reasoning merely chimerical; but is founded on history and experience. The republic of Sparta was certainly more powerful than any state now in the world, consisting of an equal number of people; and this was owing entirely to the want of commerce and luxury. The Helotes were the labourers: The Spartans were the soldiers or gentlemen. It is evident, that

1. Mons. Melon, in his political essay on commerce, asserts, that even at present, if you divide France into 20 parts, 16 are labourers or peasants; two only artizans; one belonging to the law, church, and military; and one merchants, financiers, and bourgeois. This calculation is certainly very erroneous. In France, England, and indeed most parts of Europe, half of the inhabitants live in cities; and even of those who live in the country, a great number are artizans, perhaps above a third.

the labour of the Helotes could not have maintained so great a number of Spartans, had these latter lived in ease and delicacy, and given employment to a great variety of trades and manufactures. The like policy may be remarked in Rome. And indeed, throughout all ancient history, it is observable, that the smallest republics raised and maintained greater armies, than states consisting of triple the number of inhabitants, are able to support at present. It is computed, that, in all European nations, the proportion between soldiers and people does not exceed one to a hundred. But we read, that the city of Rome alone, with its small territory, raised and maintained, in early times, ten legions against the Latins. Athens, the whole of whose dominions was not larger than Yorkshire, sent to the expedition against Sicily near forty thousand men.² Dionysius the elder, it is said, maintained a standing army of a hundred thousand foot and ten thousand horse, besides a large fleet of four hundred sail;³ though his territories extended no farther than the city of Syracuse, about a third of the island of Sicily, and some sea-port towns and garrisons on the coast of Italy and Illyricum. It is true, the ancient armies, in time of war, subsisted much upon plunder: But did not the enemy plunder in their turn? which was a more ruinous way of levying a tax, than any other that could be devised. In short, no probable reason can be assigned for the great power of the more ancient states above the modern, but their want of commerce and luxury. Few artizans were maintained by the labour of the farmers, and therefore more soldiers might live upon it. Livy says, that Rome, in his time, would find it difficult to raise as large an army as that which, in her early days, she sent out against the Gauls and Latins.⁴ Instead of those soldiers who fought for liberty and empire in Camillus's time, there were, in Augustus's days, musicians, painters, cooks, players, and tailors; and if the land was equally cultivated at both periods, it could certainly maintain equal numbers in the one profession as in the

2.Thucydides, lib. vii.

3.Diod. Sic. lib. vii. This account, I own, is somewhat suspicious, not to say worse; chiefly because this army was not composed of citizens, but of mercenary forces.

4.Titi livii, lib. vii. cap. 24. "Adeo in quae laboramus," says he, "sola crevimus, divitias luxuriamque."

other. They added nothing to the mere necessities of life, in the latter period more than in the former.

It is natural on this occasion to ask, whether sovereigns may not return to the maxims of ancient policy, and consult their own interest in this respect, more than the happiness of their subjects? I answer, that it appears to me, almost impossible; and that because ancient policy was violent, and contrary to the more natural and usual course of things. It is well known with what peculiar laws Sparta was governed, and what a prodigy that republic is justly esteemed by every one, who has considered human nature as it has displayed itself in other nations, and other ages. Were the testimony of history less positive and circumstantial, such a government would appear a mere philosophical whim or fiction, and impossible ever to be reduced to practice. And though the Roman and other ancient republics were supported on principles somewhat more natural, yet was there an extraordinary concurrence of circumstances to make them submit to such grievous burthens. They were free states; they were small ones; and the age being martial, all their neighbours were continually in arms. Freedom naturally begets public spirit, especially in small states; and this public spirit, this *amor patriae*, must encrease, when the public is almost in continual alarm, and men are obliged, every moment, to expose themselves to the greatest dangers for its defence. A continual succession of wars makes every citizen a soldier: He takes the field in his turn: And during his service he is chiefly maintained by himself. This service is indeed equivalent to a heavy tax; yet is it less felt by a people addicted to arms, who fight for honour and revenge more than pay, and are unacquainted with gain and industry as well as pleasure.⁵ Not to mention the great equality of fortunes among the inhabitants of the ancient republics, where every field, belonging to a different proprietor, was able to maintain a family, and rendered the numbers of citizens very considerable, even without trade and manufactures.

But though the want of trade and manufactures, among a free and very martial people, may sometimes have no other effect than to render the public more powerful, it is certain, that, in the common course of human affairs, it will have a quite contrary tendency. Sovereigns must take mankind as they find

them, and cannot pretend to introduce any violent change in their principles and ways of thinking. A long course of time, with a variety of accidents and circumstances, are requisite to produce those great revolutions, which so much diversify the face of human affairs. And the less natural any set of principles are, which support a particular society, the more difficulty will a legislator meet with in raising and cultivating them. It is his best policy to comply with the common bent of mankind, and give it all the improvements of which it is susceptible. Now, according to the most natural course of things, industry and arts and trade encrease the power of the sovereign as well as the happiness of the subjects; and that policy is violent, which aggrandizes the public by the poverty of individuals. This will easily appear from a few considerations, which will present to us the consequences of sloth and barbarity.

Where manufactures and mechanic arts are not cultivated, the bulk of the people must apply themselves to agriculture; and if their skill and industry encrease, there must arise a great superfluity from their labour beyond what suffices to maintain them. They have no temptation, therefore, to encrease their skill and industry; since they cannot exchange that superfluity for any commodities, which may serve either to their pleasure or vanity. A habit of indolence naturally prevails. The greater part of the land lies uncultivated. What is cultivated, yields not its utmost for want of skill and assiduity in the farmers. If at any time the public exigencies require, that great

5. The more ancient Romans lived in perpetual war with all their neighbours: And in old Latin, the term *hostis*, expressed both a stranger and an enemy. This is remarked by Cicero; but by him is ascribed to the humanity of his ancestors, who softened, as much as possible, the denomination of an enemy, by calling him by the same appellation which signified a stranger. *De Off. lib. ii.* It is however much more probable, from the manners of the times, that the ferocity of those people was so great as to make them regard all strangers as enemies, and call them by the same name. It is not, besides, consistent with the most common maxims of policy or of nature, that any state should regard its public enemies with a friendly eye, or preserve any such sentiments for them as the Roman orator would ascribe to his ancestors. Not to mention, that the early Romans really exercised piracy, as we learn from their first treaties with Carthage, preserved by Polybius, *lib. iii.* and consequently, like the Sallee and Algerine rovers, were actually at war with most nations, and a stranger and an enemy were with them almost synonymous.

numbers should be employed in the public service, the labour of the people furnishes now no superfluities, by which these numbers can be maintained. The labourers cannot encrease their skill and industry on a sudden. Lands uncultivated cannot be brought into tillage for some years. The armies, mean while, must either make sudden and violent conquests, or disband for want of subsistence. A regular attack or defence, therefore, is not to be expected from such a people, and their soldiers must be as ignorant and unskilful as their farmers and manufacturers.

Every thing in the world is purchased by labour; and our passions are the only causes of labour. When a nation abounds in manufactures and mechanic arts, the proprietors of land, as well as the farmers, study agriculture as a science, and redouble their industry and attention. The superfluity, which arises from their labour, is not lost; but is exchanged with manufactures for those commodities, which men's luxury now makes them covet. By this means, land furnishes a great deal more of the necessaries of life, than what suffices for those who cultivate it. In times of peace and tranquillity, this superfluity goes to the maintenance of manufacturers, and the improvers of liberal arts. But it is easy for the public to convert many of these manufacturers into soldiers, and maintain them by that superfluity, which arises from the labour of the farmers. Accordingly we find, that this is the case in all civilized governments. When the sovereign raises an army, what is the consequence? He imposes a tax. This tax obliges all the people to retrench what is least necessary to their subsistence. Those, who labour in such commodities, must either enlist in the troops, or turn themselves to agriculture, and thereby oblige some labourers to enlist for want of business. And to consider the matter abstractedly, manufactures encrease the power of the state only as they store up so much labour, and that of a kind to which the public may lay claim, without depriving any one of the necessaries of life. The more labour, therefore, is employed beyond mere necessaries, the more powerful is any state; since the persons engaged in that labour may easily be converted to the public service. In a state without manufactures, there may be the same number of hands; but there is not the same quantity of labour, nor of the same kind. All the

labour is there bestowed upon necessaries, which can admit of little or no abatement.

Thus the greatness of the sovereign and the happiness of the state are, in a great measure, united with regard to trade and manufactures. It is a violent method, and in most cases impracticable, to oblige the labourer to toil, in order to raise from the land more than what subsists himself and family. Furnish him with manufactures and commodities, and he will do it of himself. Afterwards you will find it easy to seize some part of his superfluous labour, and employ it in the public service, without giving him his wonted return. Being accustomed to industry, he will think this less grievous, than if, at once, you obliged him to an augmentation of labour without any reward. The case is the same with regard to the other members of the state. The greater is the stock of labour of all kinds, the greater quantity may be taken from the heap, without making any sensible alteration in it.

A public granary of corn, a storehouse of cloth, a magazine of arms; all these must be allowed real riches and strength in any state. Trade and industry are really nothing but a stock of labour, which, in times of peace and tranquillity, is employed for the ease and satisfaction of individuals; but in the exigencies of state, may, in part, be turned to public advantage. Could we convert a city into a kind of fortified camp, and infuse into each breast so martial a genius, and such a passion for public good, as to make every one willing to undergo the greatest hardships for the sake of the public; these affections might now, as in ancient times, prove alone a sufficient spur to industry, and support the community. It would then be advantageous, as in camps, to banish all arts and luxury; and, by restrictions on equipage and tables, make the provisions and forage last longer than if the army were loaded with a number of superfluous retainers. But as these principles are too disinterested and too difficult to support, it is requisite to govern men by other passions, and animate them with a spirit of avarice and industry, art and luxury. The camp is, in this case, loaded with a superfluous retinue; but the provisions flow in proportionably larger. The harmony of the whole is still supported; and the natural bent of the mind being more complied with,

individuals, as well as the public, find their account in the observance of those maxims.

The same method of reasoning will let us see the advantage of *foreign* commerce, in augmenting the power of the state, as well as the riches and happiness of the subject. It encreases the stock of labour in the nation; and the sovereign may convert what share of it he finds necessary to the service of the public. Foreign trade, by its imports, furnishes materials for new manufactures; and by its exports, it produces labour in particular commodities, which could not be consumed at home. In short, a kingdom, that has a large import and export, must abound more with industry, and that employed upon delicacies and luxuries, than a kingdom which rests contented with its native commodities. It is, therefore, more powerful, as well as richer and happier. The individuals reap the benefit of these commodities, so far as they gratify the senses and appetites. And the public is also a gainer, while a greater stock of labour is, by this means, stored up against any public exigency; that is, a greater number of laborious men are maintained, who may be diverted to the public service, without robbing any one of the necessaries, or even the chief conveniencies of life.

If we consult history, we shall find, that, in most nations, foreign trade has preceded any refinement in home manufactures, and given birth to domestic luxury. The temptation is stronger to make use of foreign commodities, which are ready for use, and which are entirely new to us, than to make improvements on any domestic commodity, which always advance by slow degrees, and never affect us by their novelty. The profit is also very great, in exporting what is superfluous at home, and what bears no price, to foreign nations, whose soil or climate is not favourable to that commodity. Thus men become acquainted with the *pleasures* of luxury and the *profits* of commerce; and their *delicacy* and *industry*, being once awakened, carry them on to farther improvements, in every branch of domestic as well as foreign trade. And this perhaps is the chief advantage which arises from a commerce with strangers. It rouses men from their indolence; and presenting the gayer and more opulent part of the nation with objects of luxury, which they never before dreamed of, raises in them a desire of a more splendid way of life than what their ancestors enjoyed. And at the same

time, the few merchants, who possess the secret of this importation and exportation, make great profits; and becoming rivals in wealth to the ancient nobility, tempt other adventurers to become their rivals in commerce. Imitation soon diffuses all those arts; while domestic manufactures emulate the foreign in their improvements, and work up every home commodity to the utmost perfection of which it is susceptible. Their own steel and iron, in such laborious hands, become equal to the gold and rubies of the Indies.

When the affairs of the society are once brought to this situation, a nation may lose most of its foreign trade, and yet continue a great and powerful people. If strangers will not take any particular commodity of ours, we must cease to labour in it. The same hands will turn themselves towards some refinement in other commodities, which may be wanted at home. And there must always be materials for them to work upon; till every person in the state, who possesses riches, enjoys as great plenty of home commodities, and those in as great perfection, as he desires; which can never possibly happen. China is represented as one of the most flourishing empires in the world; though it has very little commerce beyond its own territories.

It will not, I hope, be considered as a superfluous digression, if I here observe, that, as the multitude of mechanical arts is advantageous, so is the great number of persons to whose share the productions of these arts fall. A too great disproportion among the citizens weakens any state. Every person, if possible, ought to enjoy the fruits of his labour, in a full possession of all the necessaries, and many of the conveniencies of life. No one can doubt, but such an equality is most suitable to human nature, and diminishes much less from the *happiness* of the rich than it adds to that of the poor. It also augments the *power of the state*, and makes any extraordinary taxes or impositions be paid with more cheerfulness. Where the riches are engrossed by a few, these must contribute very largely to the supplying of the public necessities. But when the riches are dispersed among multitudes, the burthen feels light on every shoulder, and the taxes make not a very sensible difference on any one's way of living.

Add to this, that, where the riches are in few hands, these must enjoy all the power, and will readily conspire to lay the whole burthen on the poor, and oppress them still farther, to the discouragement of all industry.

In this circumstance consists the great advantage of England above any nation at present in the world, or that appears in the records of any story. It is true, the English feel some disadvantages in foreign trade by the high price of labour, which is in part the effect of the riches of their artisans, as well as of the plenty of money: But as foreign trade is not the most material circumstance, it is not to be put in competition with the happiness of so many millions. And if there were no more to endear to them that free government under which they live, this alone were sufficient. The poverty of the common people is a natural, if not an infallible effect of absolute monarchy; though I doubt, whether it be always true, on the other hand, that their riches are an infallible result of liberty. Liberty must be attended with particular accidents, and a certain turn of thinking, in order to produce that effect. Lord Bacon, accounting for the great advantages obtained by the English in their wars with France, ascribes them chiefly to the superior ease and plenty of the common people amongst the former; yet the government of the two kingdoms was, at that time, pretty much alike. Where the labourers and artisans are accustomed to work for low wages, and to retain but a small part of the fruits of their labour, it is difficult for them, even in a free government, to better their condition, or conspire among themselves to heighten their wages. But even where they are accustomed to a more plentiful way of life, it is easy for the rich, in an arbitrary government, to conspire against them, and throw the whole burthen of the taxes on their shoulders.

It may seem an odd position, that the poverty of the common people in France, Italy, and Spain, is, in some measure, owing to the superior riches of the soil and happiness of the climate; yet there want not reasons to justify this paradox. In such a fine mould or soil as that of those more southern regions, agriculture is an easy art; and one man, with a couple of sorry horses, will be able, in a season, to cultivate as much land as will pay a pretty considerable rent to the proprietor. All the art, which the farmer knows, is to leave his ground fallow for a

year, as soon as it is exhausted; and the warmth of the sun alone and temperature of the climate enrich it, and restore its fertility. Such poor peasants, therefore, require only a simple maintenance for their labour. They have no stock or riches, which claim more; and at the same time, they are for ever dependant on their landlord, who gives no leases, nor fears that his land will be spoiled by the ill methods of cultivation. In England, the land is rich, but coarse; must be cultivated at a great expence; and produces slender crops, when not carefully managed, and by a method which gives not the full profit but in a course of several years. A farmer, therefore, in England must have a considerable stock, and a long lease; which beget proportional profits. The fine vineyards of Champagne and Burgundy, that often yield to the landlord above five pounds per acre, are cultivated by peasants, who have scarcely bread: The reason is, that such peasants need no stock but their own limbs, with instruments of husbandry, which they can buy for twenty shillings. The farmers are commonly in some better circumstances in those countries. But the grasiers are most at their ease of all those who cultivate the land. The reason is still the same. Men must have profits proportionable to their expence and hazard. Where so considerable a number of the labouring poor as the peasants and farmers are in very low circumstances, all the rest must partake of their poverty, whether the government of that nation be monarchical or republican.

We may form a similar remark with regard to the general history of mankind. What is the reason, why no people, living between the tropics, could ever yet attain to any art or civility, or reach even any police in their government, and any military discipline; while few nations in the temperate climates have been altogether deprived of these advantages? It is probable that one cause of this phaenomenon is the warmth and equality of weather in the torrid zone, which render clothes and houses less requisite for the inhabitants, and thereby remove, in part, that necessity, which is the great spur to industry and invention. *Curis acuens mortalia corda*. Not to mention, that the fewer goods or possessions of this kind any people enjoy, the fewer quarrels are likely to arise amongst them, and the less necessity will there be for a settled police or regular authority to

protect and defend them from foreign enemies, or from each other.

Chapter 2

Of Money.

MONEY is not, properly speaking, one of the subjects of commerce; but only the instrument which men have agreed upon to facilitate the exchange of one commodity for another. It is none of the wheels of trade: It is the oil which renders the motion of the wheels more smooth and easy. If we consider any one kingdom by itself, it is evident, that the greater or less plenty of money is of no consequence; since the prices of commodities are always proportioned to the plenty of money, and a crown in Harry VII.'s time served the same purpose as a pound does at present. It is only the public which draws any advantage from the greater plenty of money; and that only in its wars and negotiations with foreign states. And this is the reason, why all rich and trading countries from Carthage to Great Britain and Holland, have employed mercenary troops, which they hired from their poorer neighbours. Were they to make use of their native subjects, they would find less advantage from their superior riches, and from their great plenty of gold and silver; since the pay of all their servants must rise in proportion to the public opulence. Our small army of 20,000 men is maintained at as great expence as a French army twice as numerous. The English fleet, during the late war, required as much money to support it as all the Roman legions, which kept the whole world in subjection, during the time of the emperors.⁶

The greater number of people and their greater industry are serviceable in all cases; at home and abroad, in private, and in public. But the greater plenty of money, is very limited in its use, and may even sometimes be a loss to a nation in its commerce with foreigners.

There seems to be a happy concurrence of causes in human affairs, which checks the growth of trade and riches, and hinders them from being confined entirely to one people; as might naturally at first be dreaded from the advantages of an established commerce. Where one nation has gotten the start of another in trade, it is very difficult for the latter to regain the ground it has lost; because of the superior industry and skill of the former, and the greater stocks, of which its merchants are possessed, and which enable them to trade on so much smaller profits. But these advantages are compensated, in some measure, by the low price of labour in every nation which has not an extensive commerce, and does not much abound in gold and silver. Manufactures, therefore, gradually shift their places, leaving those countries and provinces which they have already enriched, and flying to others, whither they are allured by the cheapness of provisions and labour; till they have enriched these also, and are again banished by the same causes. And, in general, we may observe, that the dearness of every thing, from plenty of money, is a disadvantage, which attends an established commerce, and sets bounds to it in every country, by enabling the poorer states to undersell the richer in all foreign markets.

6. A Private soldier in the Roman infantry had a denarius a day, somewhat less than eightpence. The Roman emperors had commonly 25 legions in pay, which allowing 5000 men to a legion, makes 125,000. Tacit. Ann. lib. iv. It is true, there were also auxiliaries to the legions; but their [Mil 283] numbers are uncertain, as well as their pay. To consider only the legionaries, the pay of the private men could not exceed 1,600,000 pounds. Now, the parliament in the last war commonly allowed for the fleet 2,500,000. We have therefore 900,000 over for the officers and other expences of the Roman legions. There seem to have been but few officers in the Roman armies, in comparison of what are employed in all our modern troops, except some Swiss corps. And these officers had very small pay: A centurion, for instance, only double a common soldier. And as the soldiers from their pay (Tacit. Ann. lib. i.) bought their own cloaths, arms, tents, and baggage; this must also diminish considerably the other charges of the army. So little expensive was that mighty government, and so easy was its yoke over the world. And, indeed, this is the more natural conclusion from the foregoing calculations. For money, after the conquest of Aegypt, seems to have been nearly in as great plenty at Rome, as it is at present in the richest of the European kingdoms.

This has made me entertain a doubt concerning the benefit of banks and paper-credit, which are so generally esteemed advantageous to every nation. That provisions and labour should become dear by the encrease of trade and money, is, in many respects, an inconvenience; but an inconvenience that is unavoidable, and the effect of that public wealth and prosperity which are the end of all our wishes. It is compensated by the advantages, which we reap from the possession of these precious metals, and the weight, which they give the nation in all foreign wars and negociations. But there appears no reason for encreasing that inconvenience by a counterfeit money, which foreigners will not accept of in any payment, and which any great disorder in the state will reduce to nothing. There are, it is true, many people in every rich state, who, having large sums of money, would prefer paper with good security; as being of more easy transport and more safe custody. If the public provide not a bank, private bankers will take advantage of this circumstance; as the goldsmiths formerly did in London, or as the bankers do at present in Dublin: And therefore it is better, it may be thought, that a public company should enjoy the benefit of that paper-credit, which always will have place in every opulent kingdom. But to endeavour artificially to encrease such a credit, can never be the interest of any trading nation; but must lay them under disadvantages, by encreasing money beyond its natural proportion to labour and commodities, and thereby heightening their price to the merchant and manufacturer. And in this view, it must be allowed, that no bank could be more advantageous, than such a one as locked up all the money it received,⁷ and never augmented the circulating coin, as is usual, by returning part of its treasure into commerce. A public bank, by this expedient, might cut off much of the dealings of private bankers and money-jobbers; and though the state bore the charge of salaries to the directors and tellers of this bank (for, according to the preceding supposition, it would have no profit from its dealings), the national advantage, resulting from the low price of labour and the destruction of paper-credit, would be a sufficient compensation. Not to mention, that so large a sum, lying ready at command, would be a convenience in times of great public danger and distress; and

7. This is the case with the bank of Amsterdam.

what part of it was used might be replaced at leisure, when peace and tranquillity was restored to the nation.

But of this subject of paper credit we shall treat more largely hereafter. And I shall finish this essay on money, by proposing and explaining two observations, which may, perhaps, serve to employ the thoughts of our speculative politicians.

It was a shrewd observation of Anacharsis⁸ the Scythian, who had never seen money in his own country, that gold and silver seemed to him of no use to the Greeks, but to assist them in numeration and arithmetic. It is indeed evident, that money is nothing but the representation of labour and commodities, and serves only as a method of rating or estimating them. Where coin is in greater plenty; as a greater quantity of it is required to represent the same quantity of goods; it can have no effect, either good or bad, taking a nation within itself; any more than it would make an alteration on a merchant's books, if, instead of the Arabian method of notation, which requires few characters, he should make use of the Roman, which requires a great many. Nay, the greater quantity of money, like the Roman characters, is rather inconvenient, and requires greater trouble both to keep and transport it. But notwithstanding this conclusion, which must be allowed just, it is certain, that, since the discovery of the mines in America, industry has encreased in all the nations of Europe, except in the possessors of those mines; and this may justly be ascribed, amongst other reasons, to the encrease of gold and silver. Accordingly we find, that, in every kingdom, into which money begins to flow in greater abundance than formerly, every thing takes a new face: labour and industry gain life; the merchant becomes more enterprising, the manufacturer more diligent and skilful, and even the farmer follows his plough with greater alacrity and attention. This is not easily to be accounted for, if we consider only the influence which a greater abundance of coin has in the kingdom itself, by heightening the price of commodities, and obliging every one to pay a greater number of these little yellow or white pieces for every thing he purchases. And as to foreign trade, it appears, that great plenty of money is rather disadvantageous, by raising the price of every kind of labour.

8.Plut. Quomodo quis suos profectus in virtute sentire possit.

To account, then, for this phenomenon, we must consider, that though the high price of commodities be a necessary consequence of the encrease of gold and silver, yet it follows not immediately upon that encrease; but some time is required before the money circulates through the whole state, and makes its effect be felt on all ranks of people. At first, no alteration is perceived; by degrees the price rises, first of one commodity, then of another; till the whole at last reaches a just proportion with the new quantity of specie which is in the kingdom. In my opinion, it is only in this interval or intermediate situation, between the acquisition of money and rise of prices, that the encreasing quantity of gold and silver is favourable to industry. When any quantity of money is imported into a nation, it is not at first dispersed into many hands; but is confined to the coffers of a few persons, who immediately seek to employ it to advantage. Here are a set of manufacturers or merchants, we shall suppose, who have received returns of gold and silver for goods which they sent to Cadiz. They are thereby enabled to employ more workmen than formerly, who never dream of demanding higher wages, but are glad of employment from such good paymasters. If workmen become scarce, the manufacturer gives higher wages, but at first requires an encrease of labour; and this is willingly submitted to by the artisan, who can now eat and drink better, to compensate his additional toil and fatigue. He carries his money to market, where he finds every thing at the same price as formerly, but returns with greater quantity and of better kinds, for the use of his family. The farmer and gardener, finding, that all their commodities are taken off, apply themselves with alacrity to the raising more; and at the same time can afford to take better and more cloths from their tradesmen, whose price is the same as formerly, and their industry only whetted by so much new gain. It is easy to trace the money in its progress through the whole commonwealth; where we shall find, that it must first quicken the diligence of every individual, before it encrease the price of labour.

And that the specie may encrease to a considerable pitch, before it have this latter effect, appears, amongst other instances, from the frequent operations of the French king on the money; where it was always found, that the augmenting of

the numerary value did not produce a proportional rise of the prices, at least for some time. In the last year of Louis XIV. money was raised three-sevenths, but prices augmented only one. Corn in France is now sold at the same price, or for the same number of livres, it was in 1683; though silver was then at 30 livres the mark, and is now at 50.⁹ Not to mention the great addition of gold and silver, which may have come into that kingdom since the former period.

From the whole of this reasoning we may conclude, that it is of no manner of consequence, with regard to the domestic happiness of a state, whether money be in a greater or less quantity. The good policy of the magistrate consists only in keeping it, if possible, still encreasing; because, by that means, he keeps alive a spirit of industry in the nation, and encreases the stock of labour, in which consists all real power and riches. A nation, whose money decreases, is actually, at that time, weaker and more miserable than another nation, which possesses no more money, but is on the encreasing hand. This will be easily accounted for, if we consider, that the alterations in the quantity of money, either on one side or the other, are not immediately attended with proportionable alterations in the price

9. These facts I give upon the authority of Mons. du Tot in his *Reflections politiques*, an author of reputation. Though I must confess, that the facts which he advances on other occasions, are often so suspicious, as to make his authority less in this matter. However, the general observation, that the augmenting of the money in France does not at first proportionably augment the prices, is certainly just. Mo [Q].² By the by, this seems to be one of the best reasons which can be given, for a gradual and universal encrease of the denomination of money, though [Mil 288] it has been entirely overlooked in all those volumes which have been written on that question by Melon, Du Tot, and Paris de Verney. Were all our money, for instance, recoinced, and a penny's worth of silver taken from every shilling, the new shilling would probably purchase every thing that could have been bought by the old; the prices of every thing would thereby be insensibly diminished; foreign trade enlivened; and domestic industry, by the circulation of a great number of pounds and shillings, would receive some encrease and encouragement. In executing such a project, it would be better to make the new shilling pass for 24 halfpence, in order to preserve the illusion, and make it be taken for the same. And as a recoinage of our silver begins to be requisite, by the continual wearing of our shillings and sixpences, it may be doubtful, whether we ought to imitate the example in King William's reign, when the clipt money was raised to the old standard.

of commodities. There is always an interval before matters be adjusted to their new situation; and this interval is as pernicious to industry, when gold and silver are diminishing, as it is advantageous when these metals are encreasing. The workman has not the same employment from the manufacturer and merchant; though he pays the same price for every thing in the market. The farmer cannot dispose of his corn and cattle; though he must pay the same rent to his landlord. The poverty, and beggary, and sloth, which must ensue, are easily foreseen.

II.

The second observation which I proposed to make with regard to money, may be explained after the following manner. There are some kingdoms, and many provinces in Europe, (and all of them were once in the same condition) where money is so scarce, that the landlord can get none at all from his tenants; but is obliged to take his rent in kind, and either to consume it himself, or transport it to places where he may find a market. In those countries, the prince can levy few or no taxes, but in the same manner: And as he will receive small benefit from impositions so paid, it is evident that such a kingdom has little force even at home; and cannot maintain fleets and armies to the same extent, as if every part of it abounded in gold and silver. There is surely a greater disproportion between the force of Germany, at present, and what it was three centuries ago,¹⁰ than there is in its industry, people, and manufactures. The Austrian dominions in the empire are in general well peopled and well cultivated, and are of great extent; but have not a proportionable weight in the balance of Europe; proceeding, as is commonly supposed, from the scarcity of money. How do all these facts agree with that principle of reason, that the quantity of gold and silver is in itself altogether indifferent? According to that principle, wherever a sovereign has numbers of subjects, and these have plenty of commodities, he should of course be great and powerful, and they rich and happy, independent of the greater or lesser abundance of the precious metals. These admit of divisions and subdivisions to a great extent; and where the pieces might become so small as to be in

10. The Italians gave to the Emperor Maximilian, the nickname of Poccidanari. None of the enterprises of that prince ever succeeded, for want of money.

danger of being lost, it is easy to mix the gold or silver with a baser metal, as is practised in some countries of Europe; and by that means raise the pieces to a bulk more sensible and convenient. They still serve the same purposes of exchange, whatever their number may be, or whatever colour they may be supposed to have.

To these difficulties I answer, that the effect, here supposed to flow from scarcity of money, really arises from the manners and customs of the people; and that we mistake, as is too usual, a collateral effect for a cause. The contradiction is only apparent; but it requires some thought and reflection to discover the principles, by which we can reconcile reason to experience.

It seems a maxim almost self-evident, that the prices of every thing depend on the proportion between commodities and money, and that any considerable alteration on either has the same effect, either of heightening or lowering the price. Encrease the commodities, they become cheaper; encrease the money, they rise in their value. As, on the other hand, a diminution of the former, and that of the latter, have contrary tendencies.

It is also evident, that the prices do not so much depend on the absolute quantity of commodities and that of money, which are in a nation, as on that of the commodities, which come or may come to market, and of the money which circulates. If the coin be locked up in chests, it is the same thing with regard to prices, as if it were annihilated; if the commodities be hoarded in magazines and granaries, a like effect follows. As the money and commodities, in these cases, never meet, they cannot affect each other. Were we, at any time, to form conjectures concerning the price of provisions, the corn, which the farmer must reserve for seed and for the maintenance of himself and family, ought never to enter into the estimation. It is only the overplus, compared to the demand, that determines the value.

To apply these principles, we must consider, that, in the first and more uncultivated ages of any state, ere fancy has confounded her wants with those of nature, men, content with the produce of their own fields, or with those rude improvements which they themselves can work upon them, have little occasion for exchange, at least for money, which, by agreement, is the common measure of exchange. The wool of the farmer's

own flock, spun in his own family, and wrought by a neighbouring weaver, who receives his payment in corn or wool, suffices for furniture and cloathing. The carpenter, the smith, the mason, the tailor, are retained by wages of a like nature; and the landlord himself, dwelling in the neighbourhood, is content to receive his rent in the commodities raised by the farmer. The greater part of these he consumes at home, in rustic hospitality: The rest, perhaps, he disposes of for money to the neighbouring town, whence he draws the few materials of his expence and luxury.

But after men begin to refine on all these enjoyments, and live not always at home, nor are content with what can be raised in their neighbourhood, there is more exchange and commerce of all kinds, and more money enters into that exchange. The tradesmen will not be paid in corn; because they want something more than barely to eat. The farmer goes beyond his own parish for the commodities he purchases, and cannot always carry his commodities to the merchant who supplies him. The landlord lives in the capital, or in a foreign country; and demands his rent in gold and silver, which can easily be transported to him. Great undertakers, and manufacturers, and merchants, arise in every commodity; and these can conveniently deal in nothing but in specie. And consequently, in this situation of society, the coin enters into many more contracts, and by that means is much more employed than in the former.

The necessary effect is, that, provided the money encrease not in the nation, every thing must become much cheaper in times of industry and refinement, than in rude, uncultivated ages. It is the proportion between the circulating money, and the commodities in the market, which determines the prices. Goods, that are consumed at home, or exchanged with other goods in the neighbourhood, never come to market; they affect not in the least the current specie; with regard to it they are as if totally annihilated; and consequently this method of using them sinks the proportion on the side of the commodities, and encreases the prices. But after money enters into all contracts and sales, and is every where the measure of exchange, the same national cash has a much greater task to perform; all commodities are then in the market; the sphere of circulation is enlarged; it is the same case as if that individual sum were to

serve a larger kingdom; and therefore, the proportion being here lessened on the side of the money, every thing must become cheaper, and the prices gradually fall.

By the most exact computations, that have been formed all over Europe, after making allowance for the alteration in the numerary value or the denomination, it is found, that the prices of all things have only risen three, or at most, four times, since the discovery of the West Indies. But will any one assert, that there is not much more than four times the coin in Europe, that was in the fifteenth century, and the centuries preceding it? The Spaniards and Portuguese from their mines, the English, French, and Dutch, by their African trade, and by their interlopers in the West Indies, bring home about six millions a year, of which not above a third goes to the East Indies. This sum alone, in ten years, would probably double the ancient stock of money in Europe. And no other satisfactory reason can be given, why all prices have not risen to a much more exorbitant height, except that which is derived from a change of customs and manners. Besides that more commodities are produced by additional industry, the same commodities come more to market, after men depart from their ancient simplicity of manners.

And though this encrease has not been equal to that of money, it has, however, been considerable, and has preserved the proportion between coin and commodities nearer the ancient standard.

Were the question proposed, Which of these methods of living in the people, the simple or refined, is the most advantageous to the state or public? I should, without much scruple, prefer the latter, in a view to politics at least; and should produce this as an additional reason for the encouragement of trade and manufactures.

While men live in the ancient simple manner, and supply all their necessaries from domestic industry or from the neighbourhood, the sovereign can levy no taxes in money from a considerable part of his subjects; and if he will impose on them any burthens, he must take payment in commodities, with which alone they abound; a method attended with such great and obvious inconveniencies, that they need not here be insisted on. All the money he can pretend to raise, must be from his principal cities, where alone it circulates; and these, it is

evident, cannot afford him so much as the whole state could, did gold and silver circulate throughout the whole. But besides this obvious diminution of the revenue, there is another cause of the poverty of the public in such a situation. Not only the sovereign receives less money, but the same money goes not so far as in times of industry and general commerce. Every thing is dearer, where the gold and silver are supposed equal; and that because fewer commodities come to market, and the whole coin bears a higher proportion to what is to be purchased by it; whence alone the prices of every thing are fixed and determined.

Here then we may learn the fallacy of the remark, often to be met with in historians, and even in common conversation, that any particular state is weak, though fertile, populous, and well cultivated, merely because it wants money. It appears, that the want of money can never injure any state within itself: For men and commodities are the real strength of any community. It is the simple manner of living which here hurts the public, by confining the gold and silver to few hands, and preventing its universal diffusion and circulation. On the contrary, industry and refinements of all kinds incorporate it with the whole state, however small its quantity may be: They digest it into every vein, so to speak; and make it enter into every transaction and contract. No hand is entirely empty of it. And as the prices of every thing fall by that means, the sovereign has a double advantage: He may draw money by his taxes from every part of the state; and what he receives, goes farther in every purchase and payment.

We may infer, from a comparison of prices, that money is not more plentiful in China, than it was in Europe three centuries ago: But what immense power is that empire possessed of, if we may judge by the civil and military establishment maintained by it? Polybius¹¹ tells us, that provisions were so cheap in Italy during his time, that in some places the stated price for a meal at the inns was a semis a head, little more than a farthing! Yet the Roman power had even then subdued the whole known world. About a century before that period, the Carthaginian ambassador said, by way of raillery, that no people lived more sociably amongst themselves than the

11.Lib. ii. cap. 15.

Romans; for that, in every entertainment, which, as foreign ministers, they received, they still observed the same plate at every table.¹² The absolute quantity of the precious metals is a matter of great indifference. There are only two circumstances of any importance, namely, their gradual encrease, and their thorough concoction and circulation through the state; and the influence of both these circumstances has here been explained.

In the following Essay we shall see an instance of a like fallacy as that above mentioned; where a collateral effect is taken for a cause, and where a consequence is ascribed to the plenty of money; though it be really owing to a change in the manners and customs of the people.

12. Plin. lib. xxxiii. cap. 11.

Chapter 3

Of Interest.

NOTHING is esteemed a more certain sign of the flourishing condition of any nation than the lowness of interest: And with reason; though I believe the cause is somewhat different from what is commonly apprehended. Lowness of interest is generally ascribed to plenty of money. But money, however plentiful, has no other effect, *if fixed*, than to raise the price of labour. Silver is more common than gold; and therefore you receive a greater quantity of it for the same commodities. But do you pay less interest for it? Interest in Batavia and Jamaica is at 10 per cent. in Portugal at 6; though these places, as we may learn from the prices of every thing, abound more in gold and silver than either London or Amsterdam.

Were all the gold in England annihilated at once, and one and twenty shillings substituted in the place of every guinea, would money be more plentiful or interest lower? No surely: We should only use silver instead of gold. Were gold rendered as common as silver, and silver as common as copper; would money be more plentiful or interest lower? We may assuredly give the same answer. Our shillings would then be yellow, and our halfpence white; and we should have no guineas. No other difference would ever be observed; no alteration on commerce, manufactures, navigation, or interest; unless we imagine, that the colour of the metal is of any consequence.

Now, what is so visible in these greater variations of scarcity or abundance in the precious metals, must hold in all inferior changes. If the multiplying of gold and silver fifteen times makes no difference, much less can the doubling or tripling them. All augmentation has no other effect than to heighten the price of labour and commodities; and even this variation is

little more than that of a name. In the progress towards these changes, the augmentation may have some influence, by exciting industry; but after the prices are settled, suitably to the new abundance of gold and silver, it has no manner of influence.

An effect always holds proportion with its cause. Prices have risen near four times since the discovery of the Indies; and it is probable gold and silver have multiplied much more: But interest has not fallen much above half. The rate of interest, therefore, is not derived from the quantity of the precious metals.

Money having chiefly a fictitious value, the greater or less plenty of it is of no consequence, if we consider a nation within itself; and the quantity of specie, when once fixed, though ever so large, has no other effect, than to oblige every one to tell out a greater number of those shining bits of metal, for clothes, furniture or equipage, without encreasing any one convenience of life. If a man borrow money to build a house, he then carries home a greater load; because the stone, timber, lead, glass, &c. with the labour of the masons and carpenters, are represented by a greater quantity of gold and silver. But as these metals are considered chiefly as representations, there can no alteration arise, from their bulk or quantity, their weight or colour, either upon their real value or their interest. The same interest, in all cases, bears the same proportion to the sum. And if you lent me so much labour and so many commodities; by receiving five per cent. you always receive proportional labour and commodities, however represented, whether by yellow or white coin, whether by a pound or an ounce. It is in vain, therefore, to look for the cause of the fall or rise of interest in the greater or less quantity of gold and silver, which is fixed in any nation.

High interest arises from *three* circumstances: A great demand for borrowing; little riches to supply that demand; and great profits arising from commerce: And these circumstances are a clear proof of the small advance of commerce and industry, not of the scarcity of gold and silver. Low interest, on the other hand, proceeds from the three opposite circumstances: A small demand for borrowing; great riches to supply that demand; and small profits arising from commerce: And

these circumstances are all connected together, and proceed from the encrease of industry and commerce, not of gold and silver. We shall endeavour to prove these points; and shall begin with the causes and the effects of a great or small demand for borrowing.

When a people have emerged ever so little from a savage state, and their numbers have encreased beyond the original multitude, there must immediately arise an inequality of property; and while some possess large tracts of land, others are confined within narrow limits, and some are entirely without any *landed* property. Those who possess more land than they can labour, employ those who possess none, and agree to receive a determinate part of the product. Thus the landed interest is immediately established; nor is there any settled government, however rude, in which affairs are not on this footing. Of these proprietors of land, some must presently discover themselves to be of different tempers from others; and while one would willingly store up the produce of his land for futurity, another desires to consume at present what should suffice for many years. But as the spending of a settled revenue is a way of life entirely without occupation; men have so much need of somewhat to fix and engage them, that pleasures, such as they are, will be the pursuit of the greater part of the landholders, and the prodigals among them will always be more numerous than the misers. In a state, therefore, where there is nothing but a landed interest, as there is little frugality, the borrowers must be very numerous, and the rate of interest must hold proportion to it. The difference depends not on the quantity of money, but on the habits and manners which prevail. By this alone the demand for borrowing is encreased or diminished. Were money so plentiful as to make an egg be sold for sixpence; so long as there are only landed gentry and peasants in the state, the borrowers must be numerous, and interest high. The rent for the same farm would be heavier and more bulky: But the same idleness of the landlord, with the higher price of commodities, would dissipate it in the same time, and produce the same necessity and demand for borrowing.

Nor is the case different with regard to the *second* circumstance which we proposed to consider, namely, the great or

little riches to supply the demand. This effect also depends on the habits and way of living of the people, not on the quantity of gold and silver. In order to have, in any state, a great number of lenders, it is not sufficient nor requisite, that there be great abundance of the precious metals. It is only requisite, that the property or command of that quantity, which is in the state, whether great or small, should be collected in particular hands, so as to form considerable sums, or compose a great monied interest. This begets a number of lenders, and sinks the rate of usury; and this I shall venture to affirm, depends not on the quantity of specie, but on particular manners and customs, which make the specie gather into separate sums or masses of considerable value.

For suppose, that, by miracle, every man in Great Britain should have five pounds slipt into his pocket in one night; this would much more than double the whole money that is at present in the kingdom; yet there would not next day, nor for some time, be any more lenders, nor any variation in the interest. And were there nothing but landlords and peasants in the state, this money, however abundant, could never gather into sums; and would only serve to encrease the prices of every thing, without any farther consequence. The prodigal landlord dissipates it, as fast as he receives it; and the beggarly peasant has no means, nor view, nor ambition of obtaining above a bare livelihood. The overplus of borrowers above that of lenders continuing still the same, there will follow no reduction of interest. That depends upon another principle; and must proceed from an encrease of industry and frugality, of arts and commerce.

Every thing useful to the life of man arises from the ground; but few things arise in that condition which is requisite to render them useful. There must, therefore, beside the peasants and the proprietors of land, be another rank of men, who receiving from the former the rude materials, work them into their proper form, and retain part for their own use and subsistence. In the infancy of society, these contracts between the artisans and the peasants, and between one species of artisans and another are commonly entered into immediately by the persons themselves, who, being neighbours, are easily acquainted with each other's necessities, and can lend their

mutual assistance to supply them. But when men's industry encreases, and their views enlarge, it is found, that the most remote parts of the state can assist each other as well as the more contiguous, and that this intercourse of good offices may be carried on to the greatest extent and intricacy. Hence the origin of *merchants*, one of the most useful races of men, who serve as agents between those parts of the state, that are wholly unacquainted, and are ignorant of each other's necessities. Here are in a city fifty workmen in silk and linen, and a thousand customers; and these two ranks of men, so necessary to each other, can never rightly meet, till one man erects a shop, to which all the workmen and all the customers repair. In this province, grass rises in abundance: The inhabitants abound in cheese, and butter, and cattle; but want bread and corn, which, in a neighbouring province, are in too great abundance for the use of the inhabitants. One man discovers this. He brings corn from the one province and returns with cattle; and supplying the wants of both, he is, so far, a common benefactor. As the people encrease in numbers and industry, the difficulty of their intercourse encreases: The business of the agency or merchandize becomes more intricate; and divides, subdivides, compounds, and mixes to a greater variety. In all these transactions, it is necessary, and reasonable, that a considerable part of the commodities and labour should belong to the merchant, to whom, in a great measure, they are owing. And these commodities he will sometimes preserve in kind, or more commonly convert into money, which is their common representation. If gold and silver have encreased in the state together with the industry, it will require a great quantity of these metals to represent a great quantity of commodities and labour. If industry alone has encreased, the prices of every thing must sink, and a small quantity of specie will serve as a representation.

There is no craving or demand of the human mind more constant and insatiable than that for exercise and employment; and this desire seems the foundation of most of our passions and pursuits. Deprive a man of all business and serious occupation, he runs restless from one amusement to another; and the weight and oppression, which he feels from idleness, is so great, that he forgets the ruin which must follow him from his

immoderate expences. Give him a more harmless way of employing his mind or body, he is satisfied, and feels no longer that insatiable thirst after pleasure. But if the employment you give him be lucrative, especially if the profit be attached to every particular exertion of industry, he has gain so often in his eye, that he acquires, by degrees, a passion for it, and knows no such pleasure as that of seeing the daily encrease of his fortune. And this is the reason why trade encreases frugality, and why, among merchants, there is the same overplus of misers above prodigals, as, among the possessors of land, there is the contrary.

Commerce encreases industry, by conveying it readily from one member of the state to another, and allowing none of it to perish or become useless. It encreases frugality, by giving occupation to men, and employing them in the arts of gain, which soon engage their affection, and remove all relish for pleasure and expence. It is an infallible consequence of all industrious professions, to beget frugality, and make the love of gain prevail over the love of pleasure. Among lawyers and physicians who have any practice, there are many more who live within their income, than who exceed it, or even live up to it. But lawyers and physicians beget no industry; and it is even at the expence of others they acquire their riches; so that they are sure to diminish the possessions of some of their fellow-citizens, as fast as they encrease their own. Merchants, on the contrary, beget industry, by serving as canals to convey it through every corner of the state: And at the same time, by their frugality, they acquire great power over that industry, and collect a large property in the labour and commodities, which they are the chief instruments in producing. There is no other profession, therefore, except merchandize, which can make the monied interest considerable, or, in other words, can encrease industry, and, by also encreasing frugality, give a great command of that industry to particular members of the society. Without commerce, the state must consist chiefly of landed gentry, whose prodigality and expence make a continual demand for borrowing; and of peasants, who have no sums to supply that demand. The money never gathers into large stocks or sums, which can be lent at interest. It is dispersed into numberless hands, who either squander it in idle show and magnificence, or employ it

in the purchase of the common necessaries of life. Commerce alone assembles it into considerable sums; and this effect it has merely from the industry which it begets, and the frugality which it inspires, independent of that particular quantity of precious metal which may circulate in the state.

Thus an encrease of commerce, by a necessary consequence, raises a great number of lenders, and by that means produces lowness of interest. We must now consider how far this encrease of commerce diminishes the profits arising from that profession, and gives rise to the third circumstance requisite to produce lowness of interest.

It may be proper to observe on this head, that low interest and low profits of merchandize are two events, that mutually forward each other, and are both originally derived from that extensive commerce, which produces opulent merchants, and renders the monied interest considerable. Where merchants possess great stocks, whether represented by few or many pieces of metal, it must frequently happen, that, when they either become tired of business, or leave heirs unwilling or unfit to engage in commerce, a great proportion of these riches naturally seeks an annual and secure revenue. The plenty diminishes the price, and makes the lenders accept of a low interest. This consideration obliges many to keep their stock employed in trade, and rather be content with low profits than dispose of their money at an under-value. On the other hand, when commerce has become extensive, and employs large stocks, there must arise rivalships among the merchants, which diminish the profits of trade, at the same time that they encrease the trade itself. The low profits of merchandize induce the merchants to accept more willingly of a low interest, when they leave off business, and begin to indulge themselves in ease and indolence. It is needless, therefore, to enquire which of these circumstances, to wit, *low interest or low profits*, is the cause, and which the effect? They both arise from an extensive commerce, and mutually forward each other. No man will accept of low profits, where he can have high interest; and no man will accept of low interest, where he can have high profits. An extensive commerce, by producing large stocks, diminishes both interest and profits; and is always assisted, in its diminution of the one, by the proportional sinking

of the other. I may add, that, as low profits arise from the encrease of commerce and industry, they serve in their turn to its farther encrease, by rendering the commodities cheaper, encouraging the consumption, and heightening the industry. And thus, if we consider the whole connexion of causes and effects, interest is the barometer of the state, and its lowness is a sign almost infallible of the flourishing condition of a people. It proves the encrease of industry, and its prompt circulation through the whole state, little inferior to a demonstration. And though, perhaps, it may not be impossible but a sudden and a great check to commerce may have a momentary effect of the same kind, by throwing so many stocks out of trade; it must be attended with such misery and want of employment in the poor, that, besides its short duration, it will not be possible to mistake the one case for the other.

Those who have asserted, that the plenty of money was the cause of low interest, seem to have taken a collateral effect for a cause; since the same industry, which sinks the interest, commonly acquires great abundance of the precious metals. A variety of fine manufactures, with vigilant enterprising merchants, will soon draw money to a state, if it be any where to be found in the world. The same cause, by multiplying the conveniencies of life, and encreasing industry, collects great riches into the hands of persons, who are not proprietors of land, and produces, by that means, a lowness of interest. But though both these effects, plenty of money and low interest, naturally arise from commerce and industry, they are altogether independent of each other. For suppose a nation removed into the *Pacific* ocean, without any foreign commerce, or any knowledge of navigation: Suppose, that this nation possesses always the same stock of coin, but is continually encreasing in its numbers and industry: It is evident, that the price of every commodity must gradually diminish in that kingdom; since it is the proportion between money and any species of goods, which fixes their mutual value; and, upon the present supposition, the conveniencies of life become every day more abundant, without any alteration in the current specie. A less quantity of money, therefore, among this people, will make a rich man, during the times of industry, than would suffice to that purpose, in ignorant and slothful ages. Less money will build a

house, portion a daughter, buy an estate, support a manufactory, or maintain a family and equipage. These are the uses for which men borrow money; and therefore, the greater or less quantity of it in a state has no influence on the interest. But it is evident, that the greater or less stock of labour and commodities must have a great influence; since we really and in effect borrow these, when we take money upon interest. It is true, when commerce is extended all over the globe, the most industrious nations always abound most with the precious metals: So that low interest and plenty of money are in fact almost inseparable. But still it is of consequence to know the principle whence any phenomenon arises, and to distinguish between a cause and a concomitant effect. Besides that the speculation is curious, it may frequently be of use in the conduct of public affairs. At least, it must be owned, that nothing can be of more use than to improve, by practice, the method of reasoning on these subjects, which of all others are the most important; though they are commonly treated in the loosest and most careless manner.

Another reason of this popular mistake with regard to the cause of low interest, seems to be the instance of some nations; where, after a sudden acquisition of money or of the precious metals, by means of foreign conquest, the interest has fallen, not only among them, but in all the neighbouring states, as soon as that money was dispersed, and had insinuated itself into every corner. Thus, interest in Spain fell near a half immediately after the discovery of the West Indies, as we are informed by Garcilasso de la Vega: And it has been ever since gradually sinking in every kingdom of Europe. Interest in Rome, after the conquest of Egypt, fell from 6 to 4 per cent. as we learn from Dion. ¹³

The causes of the sinking of interest, upon such an event, seem different in the conquering country and in the neighbouring states; but in neither of them can we justly ascribe that effect merely to the encrease of gold and silver.

In the conquering country, it is natural to imagine, that this new acquisition of money will fall into a few hands, and be gathered into large sums, which seek a secure revenue, either by the purchase of land or by interest; and consequently the

13.Lib. ii.

same effect follows, for a little time, as if there had been a great accession of industry and commerce. The encrease of lenders above the borrowers sinks the interest; and so much the faster, if those, who have acquired those large sums, find no industry or commerce in the state, and no method of employing their money but by lending it at interest. But after this new mass of gold and silver has been digested, and has circulated through the whole state, affairs will soon return to their former situation; while the landlords and new money-holders, living idly, squander above their income; and the former daily contract debt, and the latter encroach on their stock till its final extinction. The whole money may still be in the state, and make itself felt by the encrease of prices: But not being now collected into any large masses or stocks, the disproportion between the borrowers and lenders is the same as formerly, and consequently the high interest returns.

Accordingly we find, in Rome, that, so early as Tiberius's time, interest had again mounted to 6 per cent.¹⁴ though no accident had happened to drain the empire of money. In Trajan's time, money lent on mortgages in Italy, bore 6 per cent.;¹⁵ on common securities in Bithynia, 12.¹⁶ And if interest in Spain has not risen to its old pitch; this can be ascribed to nothing but the continuance of the same cause that sunk it, to wit, the large fortunes continually made in the Indies, which come over to Spain from time to time, and supply the demand of the borrowers. By this accidental and extraneous cause, more money is to be lent in Spain, that is, more money is collected into large sums than would otherwise be found in a state, where there are so little commerce and industry.

As to the reduction of interest, which has followed in England, France, and other kingdoms of Europe, that have no mines, it has been gradual; and has not proceeded from the encrease of money, considered merely in itself; but from that of industry, which is the natural effect of the former encrease, in that interval, before it raises the price of labour and provisions. For to return to the foregoing supposition; if the industry of England had risen as much from other causes, (and that rise

14. Columella, lib. iii. cap. 3.

15. Plinii epist. lib. vii. ep. 18.

16. Id. lib. x. ep. 62.

might easily have happened, though the stock of money had remained the same) must not all the same consequences have followed, which we observe at present? The same people would, in that case, be found in the kingdom, the same commodities, the same industry, manufactures, and commerce; and consequently the same merchants, with the same stocks, that is, with the same command over labour and commodities, only represented by a smaller number of white or yellow pieces; which being a circumstance of no moment, would only affect the waggoner, porter, and trunk-maker. Luxury, therefore, manufactures, arts, industry, frugality, flourishing equally as at present, it is evident, that interest must also have been as low; since that is the necessary result of all these circumstances; so far as they determine the profits of commerce, and the proportion between the borrowers and lenders in any state.

Chapter 4

Of the Balance of Trade.

IT is very usual, in nations ignorant of the nature of commerce, to prohibit the exportation of commodities, and to preserve among themselves whatever they think valuable and useful. They do not consider, that, in this prohibition, they act directly contrary to their intention; and that the more is exported of any commodity, the more will be raised at home, of which they themselves will always have the first offer.

It is well known to the learned, that the ancient laws of Athens rendered the exportation of figs criminal; that being supposed a species of fruit so excellent in Attica, that the Athenians deemed it too delicious for the palate of any foreigner. And in this ridiculous prohibition they were so much in earnest, that informers were thence called *sycophants* among them, from two Greek words, which signify *figs* and *discoverer*.¹⁷ There are proofs in many old acts of parliament of the same ignorance in the nature of commerce, particularly in the reign of Edward III. And to this day, in France, the exportation of corn is almost always prohibited; in order, as they say, to prevent famines; though it is evident, that nothing contributes more to the frequent famines, which so much distress that fertile country.

The same jealous fear, with regard to money, has also prevailed among several nations; and it required both reason and experience to convince any people, that these prohibitions serve to no other purpose than to raise the exchange against them, and produce a still greater exportation.

These errors, one may say, are gross and palpable: But there still prevails, even in nations well acquainted with commerce, a

17.Plut. De Curiositate.

strong jealousy with regard to the balance of trade, and a fear, that all their gold and silver may be leaving them. This seems to me, almost in every case, a groundless apprehension; and I should as soon dread, that all our springs and rivers should be exhausted, as that money should abandon a kingdom where there are people and industry. Let us carefully preserve these latter advantages; and we need never be apprehensive of losing the former.

It is easy to observe, that all calculations concerning the balance of trade are founded on very uncertain facts and suppositions. The custom-house books are allowed to be an insufficient ground of reasoning; nor is the rate of exchange much better; unless we consider it with all nations, and know also the proportions of the several sums remitted; which one may safely pronounce impossible. Every man, who has ever reasoned on this subject, has always proved his theory, whatever it was, by facts and calculations, and by an enumeration of all the commodities sent to all foreign kingdoms.

The writings of Mr. Gee 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, with an expensive foreign war; yet is it commonly supposed, that money is still more plentiful among us than in any former period.

Nothing can be more entertaining on this head than Dr. Swift; an author so quick in discerning the mistakes and absurdities of others. He says, in his *short view of the state of Ireland*, that the whole cash of that kingdom formerly amounted but to 500,000*l.*; that out of this the Irish remitted every year a neat million to England, and had scarcely any other source from which they could compensate themselves, and little other foreign trade than the importation of French wines, for which they paid ready money. The consequence of this situation, which must be owned to be disadvantageous, was, that, in a course of three years, the current money of Ireland, from 500,000*l.* was reduced to less than two. And at present, I suppose, in a course of 30 years it is absolutely nothing. Yet I know not how, that opinion of the advance of riches in Ireland,

which gave the Doctor so much indignation, seems still to continue, and gain ground with every body.

In short, this apprehension of the wrong balance of trade, appears of such a nature, that it discovers itself, wherever one is out of humour with the ministry, or is in low spirits; and as it can never be refuted by a particular detail of all the exports, which counterbalance the imports, it may here be proper to form a general argument, that may prove the impossibility of this event, as long as we preserve our people and our industry.

Suppose four-fifths of all the money in Great Britain to be annihilated in one night, and the nation reduced to the same condition, with regard to specie, as in the reigns of the Harrys and Edwards, what would be the consequence? Must not the price of all labour and commodities sink in proportion, and every thing be sold as cheap as they were in those ages? What nation could then dispute with us in any foreign market, or pretend to navigate or to sell manufactures at the same price, which to us would afford sufficient profit? In how little time, therefore, must this bring back the money which we had lost, and raise us to the level of all the neighbouring nations? Where, after we have arrived, we immediately lose the advantage of the cheapness of labour and commodities; and the farther flowing in of money is stopped by our fulness and repletion.

Again, suppose, that all the money of Great Britain were multiplied fivefold in a night, must not the contrary effect follow? Must not all labour and commodities rise to such an exorbitant height, that no neighbouring nations could afford to buy from us; while their commodities, on the other hand, became comparatively so cheap, that, in spite of all the laws which could be formed, they would be run in upon us, and our money flow out; till we fall to a level with foreigners, and lose that great superiority of riches, which had laid us under such disadvantages?

Now, it is evident, that the same causes, which would correct these exorbitant inequalities, were they to happen miraculously, must prevent their happening in the common course of nature, and must for ever, in all neighbouring nations, preserve money nearly proportionable to the art and industry of each nation. All water, wherever it communicates, remains always at a level. Ask naturalists the reason; they tell you, that, were it to be raised in any one place, the superior gravity of

that part not being balanced, must depress it, till it meet a counterpoise; and that the same cause, which redresses the inequality when it happens, must for ever prevent it, without some violent external operation.¹⁸

Can one imagine, that it had ever been possible, by any laws, or even by any art or industry, to have kept all the money in Spain, which the galleons have brought from the Indies? Or that all commodities could be sold in France for a tenth of the price which they would yield on the other side of the Pyrenees, without finding their way thither, and draining from that immense treasure? What other reason, indeed, is there, why all nations, at present, gain in their trade with Spain and Portugal; but because it is impossible to heap up money, more than any fluid, beyond its proper level? The sovereigns of these countries have shown, that they wanted not inclination to keep their gold and silver to themselves, had it been in any degree practicable.

But as any body of water may be raised above the level of the surrounding element, if the former has no communication with the latter; so in money, if the communication be cut off, by any material or physical impediment, (for all laws alone are ineffectual) there may, in such a case, be a very great inequality of money. Thus the immense distance of China, together with the monopolies of our India companies, obstructing the communication, preserve in Europe the gold and silver, especially the latter, in much greater plenty than they are found in that kingdom. But, notwithstanding this great obstruction, the force of the causes abovementioned is still evident. The skill and ingenuity of Europe in general surpasses perhaps that of China, with regard to manual arts and manufactures; yet are we never able to trade thither without great disadvantage. And were it not for the continual recruits, which we receive from America, money would soon sink in Europe, and rise in China, till it

18. There is another cause, though more limited in its operation, which checks the wrong balance of trade, to every particular nation to which the kingdom trades. When we import more goods than we export, the exchange turns against us, and this becomes a new encouragement to export; as much as the charge of carriage and insurance of the money which becomes due would amount to. For the exchange can never rise but a little higher than that sum.

came nearly to a level in both places. Nor can any reasonable man doubt, but that industrious nation, were they as near us as Poland or Barbary, would drain us of the overplus of our specie, and draw to themselves a larger share of the West Indian treasures. We need not have recourse to a physical attraction, in order to explain the necessity of this operation. There is a moral attraction, arising from the interests and passions of men, which is full as potent and infallible.

How is the balance kept in the provinces of every kingdom among themselves, but by the force of this principle, which makes it impossible for money to lose its level, and either to rise or sink beyond the proportion of the labour and commodities which are in each province? Did not long experience make people easy on this head, what a fund of gloomy reflections might calculations afford to a melancholy Yorkshireman, while he computed and magnified the sums drawn to London by taxes, absentees, commodities, and found on comparison the opposite articles so much inferior? And no doubt, had the *Heptarchy* subsisted in England, the legislature of each state had been continually alarmed by the fear of a wrong balance; and as it is probable that the mutual hatred of these states would have been extremely violent on account of their close neighbourhood, they would have loaded and oppressed all commerce, by a jealous and superfluous caution. Since the union has removed the barriers between Scotland and England, which of these nations gains from the other by this free commerce? Or if the former kingdom has received any encrease of riches, can it reasonably be accounted for by any thing but the encrease of its art and industry? It was a common apprehension in England, before the union, as we learn from L'Abbe du Bos,¹⁹ that Scotland would soon drain them of their treasure, were an open trade allowed; and on the other side the Tweed a contrary apprehension prevailed: With what justice in both, time has shown.

What happens in small portions of mankind, must take place in greater. The provinces of the Roman empire, no doubt, kept their balance with each other, and with Italy, independent of the legislature; as much as the several counties of Great Britain, or the several parishes of each county. And any man who

19. Les interets d'Angleterre mal-entendus.

travels over Europe at this day, may see, by the prices of commodities, that money, in spite of the absurd jealousy of princes and states, has brought itself nearly to a level; and that the difference between one kingdom and another is not greater in this respect, than it is often between different provinces of the same kingdom. Men naturally flock to capital cities, sea-ports, and navigable rivers. There we find more men, more industry, more commodities, and consequently more money; but still the latter difference holds proportion with the former, and the level is preserved.²⁰

Our jealousy and our hatred of France are without bounds; and the former sentiment, at least, must be acknowledged reasonable and well-grounded. These passions have occasioned innumerable barriers and obstructions upon commerce, where we are accused of being commonly the aggressors. But what have we gained by the bargain? We lost the French market for our woollen manufactures, and transferred the commerce of wine to Spain and Portugal, where we buy worse liquor at a higher price. There are few Englishmen who would not think their country absolutely ruined, were French wines sold in England so cheap and in such abundance as to supplant, in some measure, all ale, and home-brewed liquors: But would we lay aside prejudice, it would not be difficult to prove, that nothing could be more innocent, perhaps advantageous. Each new acre of vineyard planted in France, in order to supply England with wine, would make it requisite for the French to take the produce of an English acre, sown in wheat or barley, in order

20. It must carefully be remarked, that throughout this discourse, wherever I speak of the level of money, I mean always its proportional level to the commodities, labour, industry, and skill, which is in the several states. And I assert, that where these advantages are double, triple, quadruple, to what they are in the neighbouring states, the money infallibly will also be double, triple, quadruple. The only circumstance that can obstruct the exactness of these proportions, is the expence of transporting the commodities from one place to another; and this expence is sometimes unequal. Thus the corn, cattle, cheese, butter, of Derbyshire, cannot draw the money of London, so much as the manufactures of London draw the money of Derbyshire. But this objection is only a seeming one: For so far as the transport of commodities is expensive, so far is the communication between the places obstructed and imperfect.

to subsist themselves; and it is evident, that we should thereby get command of the better commodity.

There are many edicts of the French king, prohibiting the planting of new vineyards, and ordering all those which are lately planted to be grubbed up: So sensible are they, in that country, of the superior value of corn, above every other product.

Mareschal Vauban complains often, and with reason, of the absurd duties which load the entry of those wines of Languedoc, Guienne, and other southern provinces, that are imported into Brittany and Normandy. He entertained no doubt but these latter provinces could preserve their balance, notwithstanding the open commerce which he recommends. And it is evident, that a few leagues more navigation to England would make no difference; or if it did, that it must operate alike on the commodities of both kingdoms.

There is indeed one expedient by which it is possible to sink, and another by which we may raise money beyond its natural level in any kingdom; but these cases, when examined, will be found to resolve into our general theory, and to bring additional authority to it.

I scarcely know any method of sinking money below its level, but those institutions of banks, funds, and paper-credit, which are so much practised in this kingdom. These render paper equivalent to money, circulate it throughout the whole state, make it supply the place of gold and silver, raise proportionably the price of labour and commodities, and by that means either banish a great part of those precious metals, or prevent their farther encrease. What can be more shortsighted than our reasonings on this head? We fancy, because an individual would be much richer, were his stock of money doubled, that the same good effect would follow were the money of every one encreased; not considering, that this would raise as much the price of every commodity, and reduce every man, in time, to the same condition as before. It is only in our public negotiations and transactions with foreigners, that a greater stock of money is advantageous; and as our paper is there absolutely insignificant, we feel, by its means, all the ill effects arising from a great abundance of money, without reaping any of the advantages.²¹

Suppose that there are 12 millions of paper, which circulate in the kingdom as money, (for we are not to imagine, that all our enormous funds are employed in that shape) and suppose the real cash of the kingdom to be 18 millions: Here is a state which is found by experience to be able to hold a stock of 30 millions. I say, if it be able to hold it, it must of necessity have acquired it in gold and silver, had we not obstructed the entrance of these metals by this new invention of paper. *Whence would it have acquired that sum?* From all the kingdoms of the world. *But why?* Because, if you remove these 12 millions, money in this state is below its level, compared with our neighbours; and we must immediately draw from all of them, till we be full and saturate, so to speak, and can hold no more. By our present politics, we are as careful to stuff the nation with this fine commodity of bank-bills and chequer-notes, as if we were afraid of being overburthened with the precious metals.

It is not to be doubted, but the great plenty of bullion in France is, in a great measure, owing to the want of paper-credit. The French have no banks: Merchants bills do not there circulate as with us: Usury or lending on interest is not directly permitted; so that many have large sums in their coffers: Great quantities of plate are used in private houses; and all the churches are full of it. By this means, provisions and labour still remain cheaper among them, than in nations that are not half so rich in gold and silver. The advantages of this situation, in point of trade as well as in great public emergencies, are too evident to be disputed.

The same fashion a few years ago prevailed in Genoa, which still has place in England and Holland, of using services of China-ware instead of plate; but the senate, foreseeing the consequence, prohibited the use of that brittle commodity beyond a certain extent; while the use of silver-plate was left unlimited. And I suppose, in their late distresses, they felt the good

21. We observed in Essay III. [Of Money.] that money, when encreasing, gives encouragement to industry, during the interval between the encrease of money and rise of the prices. A good effect of this nature may follow too from paper-credit; but it is dangerous to precipitate matters, at the risk of losing all by the failing of that credit, as must happen upon any violent shock in public affairs.

effect of this ordinance. Our tax on plate is, perhaps, in this view, somewhat impolitic.

Before the introduction of paper-money into our colonies, they had gold and silver sufficient for their circulation. Since the introduction of that commodity, the least inconveniency that has followed is the total banishment of the precious metals. And after the abolition of paper, can it be doubted but money will return, while these colonies possess manufactures and commodities, the only thing valuable in commerce, and for whose sake alone all men desire money.

What pity Lycurgus did not think of paper-credit, when he wanted to banish gold and silver from Sparta! It would have served his purpose better than the lumps of iron he made use of as money; and would also have prevented more effectually all commerce with strangers, as being of so much less real and intrinsic value.

It must, however, be confessed, that, as all these questions of trade and money are extremely complicated, there are certain lights, in which this subject may be placed, so as to represent the advantages of paper-credit and banks to be superior to their disadvantages. That they banish specie and bullion from a state is undoubtedly true; and whoever looks no farther than this circumstance does well to condemn them; but specie and bullion are not of so great consequence as not to admit of a compensation, and even an overbalance from the encrease of industry and of credit, which may be promoted by the right use of paper-money. It is well known of what advantage it is to a merchant to be able to discount his bills upon occasion; and every thing that facilitates this species of traffic is favourable to the general commerce of a state. But private bankers are enabled to give such credit by the credit they receive from the depositing of money in their shops; and the bank of England in the same manner, from the liberty it has to issue its notes in all payments. There was an invention of this kind, which was fallen upon some years ago by the banks of Edinburgh; and which, as it is one of the most ingenious ideas that has been executed in commerce, has also been thought advantageous to Scotland. It is there called a Bank-Credit; and is of this nature. A man goes to the bank and finds surety to the amount, we shall suppose, of a thousand pounds. This money, or any part of

it, he has the liberty of drawing out whenever he pleases, and he pays only the ordinary interest for it, while it is in his hands. He may, when he pleases, repay any sum so small as twenty pounds, and the interest is discounted from the very day of the repayment. The advantages, resulting from this contrivance, are manifold. As a man may find surety nearly to the amount of his substance, and his bank-credit is equivalent to ready money, a merchant does hereby in a manner coin his houses, his household furniture, the goods in his warehouse, the foreign debts due to him, his ships at sea; and can, upon occasion, employ them in all payments, as if they were the current money of the country. If a man borrow a thousand pounds from a private hand, besides that it is not always to be found when required, he pays interest for it, whether he be using it or not: His bank-credit costs him nothing except during the very moment, in which it is of service to him: And this circumstance is of equal advantage as if he had borrowed money at much lower interest. Merchants, likewise, from this invention, acquire a great facility in supporting each other's credit, which is a considerable security against bankruptcies. A man, when his own bank-credit is exhausted, goes to any of his neighbours who is not in the same condition; and he gets the money, which he replaces at his convenience.

After this practice had taken place during some years at Edinburgh, several companies of merchants at Glasgow carried the matter farther. They associated themselves into different banks, and issued notes so low as ten shillings, which they used in all payments for goods, manufactures, tradesmen's labour of all kinds; and these notes, from the established credit of the companies, passed as money in all payments throughout the country. By this means, a stock of five thousand pounds was able to perform the same operations as if it were six or seven; and merchants were thereby enabled to trade to a greater extent, and to require less profit in all their transactions. But whatever other advantages result from these inventions, it must still be allowed that, besides giving too great facility to credit, which is dangerous, they banish the precious metals; and nothing can be a more evident proof of it, than a comparison of the past and present condition of Scotland in that particular. It was found, upon the recoinage made after

the union, that there was near a million of specie in that country: But notwithstanding the great encrease of riches, commerce and manufactures of all kinds, it is thought, that, even where there is no extraordinary drain made by England, the current specie will not now amount to a third of that sum.

But as our projects of paper-credit are almost the only expedient, by which we can sink money below its level; so, in my opinion, the only expedient, by which we can raise money above it, is a practice which we should all exclaim against as destructive, namely, the gathering of large sums into a public treasure, locking them up, and absolutely preventing their circulation. The fluid, not communicating with the neighbouring element, may, by such an artifice, be raised to what height we please. To prove this, we need only return to our first supposition, of annihilating the half or any part of our cash; where we found, that the immediate consequence of such an event would be the attraction of an equal sum from all the neighbouring kingdoms. Nor does there seem to be any necessary bounds set, by the nature of things, to this practice of hoarding. A small city, like Geneva, continuing this policy for ages, might engross nine-tenths of the money of Europe. There seems, indeed, in the nature of man, an invincible obstacle to that immense growth of riches. A weak state, with an enormous treasure, will soon become a prey to some of its poorer, but more powerful neighbours. A great state would dissipate its wealth in dangerous and ill-concerted projects; and probably destroy, with it, what is much more valuable, the industry, morals, and numbers of its people. The fluid, in this case, raised to too great a height, bursts and destroys the vessel that contains it; and mixing itself with the surrounding element, soon falls to its proper level.

So little are we commonly acquainted with this principle, that, though all historians agree in relating uniformly so recent an event, as the immense treasure amassed by Harry VII. (which they make amount to 2,700,000 pounds,) we rather reject their concurring testimony, than admit of a fact, which agrees so ill with our inveterate prejudices. It is indeed probable, that this sum might be three-fourths of all the money in England. But where is the difficulty in conceiving, that such a sum might be amassed in twenty years, by a cunning,

rapacious, frugal, and almost absolute monarch? Nor is it probable, that the diminution of circulating money was ever sensibly felt by the people, or ever did them any prejudice. The sinking of the prices of all commodities would immediately replace it, by giving England the advantage in its commerce with the neighbouring kingdoms.

Have we not an instance, in the small republic of Athens with its allies, who, in about fifty years, between the Median and Peloponnesian wars, amassed a sum not much inferior to that of Harry VII.? For all the Greek historians²² and orators²³ agree, that the Athenians collected in the citadel more than 10,000 talents, which they afterwards dissipated to their own ruin, in rash and imprudent enterprizes. But when this money was set a running, and began to communicate with the surrounding fluid; what was the consequence? Did it remain in the state? No. For we find, by the memorable *census* mentioned by Demosthenes²⁴ and Polybius,²⁵ that, in about fifty years afterwards, the whole value of the republic, comprehending lands, houses, commodities, slaves, and money, was less than 6000 talents.

What an ambitious high-spirited people was this, to collect and keep in their treasury, with a view to conquests, a sum, which it was every day in the power of the citizens, by a single vote, to distribute among themselves, and which would have gone near to triple the riches of every individual! For we must observe, that the numbers and private riches of the Athenians are said, by ancient writers, to have been no greater at the beginning of the Peloponnesian war, than at the beginning of the Macedonian.

Money was little more plentiful in Greece during the age of Philip and Perseus, than in England during that of Harry VII.: Yet these two monarchs in thirty years²⁶ collected from the small kingdom of Macedon, a larger treasure than that of the English monarch. Paulus AEmilius brought to Rome about 1,700,000 pounds *Sterling*.²⁷ Pliny says, 2,400,000.²⁸ And that

22.Thucydides, lib. ii. and Diod. Sic. lib. xii.

23.Vid. AEschines et Demosthenis Epist.

24.Περι Συμμορίας.

25.Lib. ii. cap. 62.

26.Titi Livii, lib. xlv. cap. 40.

was but a part of the Macedonian treasure. The rest was dissipated by the resistance and flight of Perseus. ²⁹

We may learn from Stanian, that the canton of Berne had 300,000 pounds lent at interest, and had above six times as much in their treasury. Here then is a sum hoarded of 1,800,000 pounds *Sterling*, which is at least quadruple what should naturally circulate in such a petty state; and yet no one, who travels in the Pais de Vaux, or any part of that canton, observes any want of money more than could be supposed in a country of that extent, soil, and situation. On the contrary, there are scarce any inland provinces in the continent of France or Germany, where the inhabitants are at this time so opulent, though that canton has vastly encreased its treasure since 1714, the time when Stanian wrote his judicious account of Switzerland. ³⁰

The account given by Appian ³¹ of the treasure of the Ptolemies, is so prodigious, that one cannot admit of it; and so much the less, because the historian says, that the other successors of Alexander were also frugal, and had many of them treasures not much inferior. For this saving humour of the neighbouring princes must necessarily have checked the frugality of the Egyptian monarchs, according to the foregoing theory. The sum he mentions is 740,000 talents, or 191,166,666 pounds 13 shillings and 4 pence, according to Dr. Arbuthnot's computation. And yet Appian says, that he extracted his account from the public records; and he was himself a native of Alexandria.

From these principles we may learn what judgment we ought to form of those numberless bars, obstructions, and imposts, which all nations of Europe, and none more than England, have put upon trade; from an exorbitant desire of amassing money, which never will heap up beyond its level, while it circulates; or from an ill-grounded apprehension of losing their specie,

27.Vel. Paterc. lib. i. cap. 9.

28.Lib. xxxiii. cap. 3.

29.Titi Livii, *ibid.*

30.The poverty which Stanian speaks of is only to be seen in the most mountainous cantons, where there is no commodity to bring money. And even there the people are not poorer than in the diocese of Saltsburgh on the one hand, or Savoy on the other.

31.Proem.

which never will sink below it. Could any thing scatter our riches, it would be such impolitic contrivances. But this general ill effect, however, results from them, that they deprive neighbouring nations of that free communication and exchange which the Author of the world has intended, by giving them soils, climates, and geniuses, so different from each other.

Our modern politics embrace the only method of banishing money, the using of paper-credit; they reject the only method of amassing it, the practice of hoarding; and they adopt a hundred contrivances, which serve to no purpose but to check industry, and rob ourselves and our neighbours of the common benefits of art and nature.

All taxes, however, upon foreign commodities, are not to be regarded as prejudicial or useless, but those only which are founded on the jealousy above-mentioned. A tax on German linen encourages home manufactures, and thereby multiplies our people and industry. A tax on brandy encreases the sale of rum, and supports our southern colonies. And as it is necessary, that imposts should be levied, for the support of government, it may be thought more convenient to lay them on foreign commodities, which can easily be intercepted at the port, and subjected to the impost. We ought, however, always to remember the maxim of Dr. Swift, That, in the arithmetic of the customs, two and two make not four, but often make only one. It can scarcely be doubted, but if the duties on wine were lowered to a third, they would yield much more to the government than at present: Our people might thereby afford to drink commonly a better and more wholesome liquor; and no prejudice would ensue to the balance of trade, of which we are so jealous. The manufacture of ale beyond the agriculture is but inconsiderable, and gives employment to few hands. The transport of wine and corn would not be much inferior.

But are there not frequent instances, you will say, of states and kingdoms, which were formerly rich and opulent, and are now poor and beggarly? Has not the money left them, with which they formerly abounded? I answer, If they lose their trade, industry, and people, they cannot expect to keep their gold and silver: For these precious metals will hold proportion to the former advantages. When Lisbon and Amsterdam got the East-India trade from Venice and Genoa, they also got the

profits and money which arose from it. Where the seat of government is transferred, where expensive armies are maintained at a distance, where great funds are possessed by foreigners; there naturally follows from these causes a diminution of the specie. But these, we may observe, are violent and forcible methods of carrying away money, and are in time commonly attended with the transport of people and industry. But where these remain, and the drain is not continued, the money always finds its way back again, by a hundred canals, of which we have no notion or suspicion. What immense treasures have been spent, by so many nations, in Flanders, since the revolution, in the course of three long wars? More money perhaps than the half of what is at present in Europe. But what has now become of it? Is it in the narrow compass of the Austrian provinces? No, surely: It has most of it returned to the several countries whence it came, and has followed that art and industry, by which at first it was acquired. For above a thousand years, the money of Europe has been flowing to Rome, by an open and sensible current; but it has been emptied by many secret and insensible canals: And the want of industry and commerce renders at present the papal dominions the poorest territory in all Italy.

In short, a government has great reason to preserve with care its people and its manufactures. Its money, it may safely trust to the course of human affairs, without fear or jealousy. Or if it ever give attention to this latter circumstance, it ought only to be so far as it affects the former.

Chapter 5

Of the Jealousy of Trade.

HAVING endeavoured to remove one species of ill-founded jealousy, which is so prevalent among commercial nations, it may not be amiss to mention another, which seems equally groundless. Nothing is more usual, among states which have made some advances in commerce, than to look on the progress of their neighbours with a suspicious eye, to consider all trading states as their rivals, and to suppose that it is impossible for any of them to flourish, but at their expence. In opposition to this narrow and malignant opinion, I will venture to assert, that the encrease of riches and commerce in any one nation, instead of hurting, commonly promotes the riches and commerce of all its neighbours; and that a state can scarcely carry its trade and industry very far, where all the surrounding states are buried in ignorance, sloth, and barbarism.

It is obvious, that the domestic industry of a people cannot be hurt by the greatest prosperity of their neighbours; and as this branch of commerce is undoubtedly the most important in any extensive kingdom, we are so far removed from all reason of jealousy. But I go farther, and observe, that where an open communication is preserved among nations, it is impossible but the domestic industry of every one must receive an encrease from the improvements of the others. Compare the situation of Great Britain at present, with what it was two centuries ago. All the arts both of agriculture and manufactures were then extremely rude and imperfect. Every improvement, which we have since made, has arisen from our imitation of foreigners; and we ought so far to esteem it happy, that they had previously made advances in arts and ingenuity. But this intercourse is still upheld to our great advantage: Notwithstanding the

advanced state of our manufactures, we daily adopt, in every art, the inventions and improvements of our neighbours. The commodity is first imported from abroad, to our great discontent, while we imagine that it drains us of our money: Afterwards, the art itself is gradually imported, to our visible advantage: Yet we continue still to repine, that our neighbours should possess any art, industry, and invention; forgetting that, had they not first instructed us, we should have been at present barbarians; and did they not still continue their instructions, the arts must fall into a state of languor, and lose that emulation and novelty, which contribute so much to their advancement.

The encrease of domestic industry lays the foundation of foreign commerce. Where a great number of commodities are raised and perfected for the home-market, there will always be found some which can be exported with advantage. But if our neighbours have no art or cultivation, they cannot take them; because they will have nothing to give in exchange. In this respect, states are in the same condition as individuals. A single man can scarcely be industrious, where all his fellow-citizens are idle. The riches of the several members of a community contribute to encrease my riches, whatever profession I may follow. They consume the produce of my industry, and afford me the produce of theirs in return.

Nor needs any state entertain apprehensions, that their neighbours will improve to such a degree in every art and manufacture, as to have no demand from them. Nature, by giving a diversity of geniuses, climates, and soils, to different nations, has secured their mutual intercourse and commerce, as long as they all remain industrious and civilized. Nay, the more the arts encrease in any state, the more will be its demands from its industrious neighbours. The inhabitants, having become opulent and skilful, desire to have every commodity in the utmost perfection; and as they have plenty of commodities to give in exchange, they make large importations from every foreign country. The industry of the nations, from whom they import, receives encouragement: Their own is also encreased, by the sale of the commodities which they give in exchange.

But what if a nation has any staple commodity, such as the woollen manufacture is in England? Must not the interfering of

our neighbours in that manufacture be a loss to us? I answer, that, when any commodity is denominated the staple of a kingdom, it is supposed that this kingdom has some peculiar and natural advantages for raising the commodity; and if, notwithstanding these advantages, they lose such a manufacture, they ought to blame their own idleness, or bad government, not the industry of their neighbours. It ought also to be considered, that, by the encrease of industry among the neighbouring nations, the consumption of every particular species of commodity is also encreased; and though foreign manufactures interfere with them in the market, the demand for their product may still continue, or even encrease. And should it diminish, ought the consequence to be esteemed so fatal? If the spirit of industry be preserved, it may easily be diverted from one branch to another; and the manufacturers of wool, for instance, be employed in linen, silk, iron, or any other commodities, for which there appears to be a demand. We need not apprehend, that all the objects of industry will be exhausted, or that our manufacturers, while they remain on an equal footing with those of our neighbours, will be in danger of wanting employment. The emulation among rival nations serves rather to keep industry alive in all of them: And any people is happier who possess a variety of manufactures, than if they enjoyed one single great manufacture, in which they are all employed. Their situation is less precarious; and they will feel less sensibly those revolutions and uncertainties, to which every particular branch of commerce will always be exposed.

The only commercial state, that ought to dread the improvements and industry of their neighbours, is such a one as the Dutch, who enjoying no extent of land, nor possessing any number of native commodities, flourish only by their being the brokers, and factors, and carriers of others. Such a people may naturally apprehend, that, as soon as the neighbouring states come to know and pursue their interest, they will take into their own hands the management of their affairs, and deprive their brokers of that profit, which they formerly reaped from it. But though this consequence may naturally be dreaded, it is very long before it takes place; and by art and industry it may be warded off for many generations, if not wholly eluded. The advantage of superior stocks and correspondence is so great,

that it is not easily overcome; and as all the transactions increase by the increase of industry in the neighbouring states, even a people whose commerce stands on this precarious basis, may at first reap a considerable profit from the flourishing condition of their neighbours. The Dutch, having mortgaged all their revenues, make not such a figure in political transactions as formerly; but their commerce is surely equal to what it was in the middle of the last century, when they were reckoned among the great powers of Europe.

Were our narrow and malignant politics to meet with success, we should reduce all our neighbouring nations to the same state of sloth and ignorance that prevails in Morocco and the coast of Barbary. But what would be the consequence? They could send us no commodities: They could take none from us: Our domestic commerce itself would languish for want of emulation, example, and instruction: And we ourselves should soon fall into the same abject condition, to which we had reduced them. I shall therefore venture to acknowledge, that, not only as a man, but as a British subject, I pray for the flourishing commerce of Germany, Spain, Italy, and even France itself. I am at least certain, that Great Britain, and all those nations, would flourish more, did their sovereigns and ministers adopt such enlarged and benevolent sentiments towards each other.

Chapter 6

Of Taxes.

THERE is a prevailing maxim, among some reasoners, *that every new tax creates a new ability in the subject to bear it, and that each encrease of public burdens encreases proportionably the industry of the people.* This maxim is of such a nature as is most likely to be abused; and is so much the more dangerous, as its truth cannot be altogether denied: but it must be owned, when kept within certain bounds, to have some foundation in reason and experience.

When a tax is laid upon commodities, which are consumed by the common people, the necessary consequence may seem to be, either that the poor must retrench something from their way of living, or raise their wages, so as to make the burden of the tax fall entirely upon the rich. But there is a third consequence, which often follows upon taxes, namely, that the poor encrease their industry, perform more work, and live as well as before, without demanding more for their labour. Where taxes are moderate, are laid on gradually, and affect not the necessaries of life, this consequence naturally follows; and it is certain, that such difficulties often serve to excite the industry of a people, and render them more opulent and laborious, than others, who enjoy the greatest advantages. For we may observe, as a parallel instance, that the most commercial nations have not always possessed the greatest extent of fertile land; but, on the contrary, that they have laboured under many natural disadvantages. Tyre, Athens, Carthage, Rhodes, Genoa, Venice, Holland, are strong examples to this purpose. And in all history, we find only three instances of large and fertile countries, which have possessed much trade; the Netherlands, England, and France. The two former seem to have been

allured by the advantages of their maritime situation, and the necessity they lay under of frequenting foreign ports, in order to procure what their own climate refused them. And as to France, trade has come late into that kingdom, and seems to have been the effect of reflection and observation in an ingenious and enterprising people, who remarked the riches acquired by such of the neighbouring nations as cultivated navigation and commerce.

The places mentioned by Cicero,³² as possessed of the greatest commerce in his time, are Alexandria, Colchus, Tyre, Sidon, Andros, Cyprus, Pamphylia, Lycia, Rhodes, Chios, Byzantium, Lesbos, Smyrna, Miletum, Coos. All these, except Alexandria, were either small islands, or narrow territories. And that city owed its trade entirely to the happiness of its situation.

Since therefore some natural necessities or disadvantages may be thought favourable to industry, why may not artificial burdens have the same effect? Sir William Temple,³³ we may observe, ascribes the industry of the Dutch entirely to necessity, proceeding from their natural disadvantages; and illustrates his doctrine by a striking comparison with Ireland; "where," says he, "by the largeness and plenty of the soil, and scarcity of people, all things necessary to life are so cheap, that an industrious man, by two days labour, may gain enough to feed him the rest of the week. Which I take to be a very plain ground of the laziness attributed to the people. For men naturally prefer ease before labour, and will not take pains if they can live idle; though when, by necessity, they have been inured to it, they cannot leave it, being grown a custom necessary to their health, and to their very entertainment. Nor perhaps is the change harder, from constant ease to labour, than from constant labour to ease." After which the author proceeds to confirm his doctrine, by enumerating, as above, the places where trade has most flourished, in ancient and modern times; and which are commonly observed to be such narrow confined territories, as beget a necessity for industry.

The best taxes are such as are levied upon consumptions, especially those of luxury; because such taxes are least felt by

32. Epist. ad Att. lib. ix. ep. II.

33. Account of the Netherlands, chap. 6.

the people. They seem, in some measure, voluntary; since a man may chuse how far he will use the commodity which is taxed: They are paid gradually and insensibly: They naturally produce sobriety and frugality, if judiciously imposed: And being confounded with the natural price of the commodity, they are scarcely perceived by the consumers. Their only disadvantage is, that they are expensive in the levying.

Taxes upon possessions are levied without expence; but have every other disadvantage. Most states, however, are obliged to have recourse to them, in order to supply the deficiencies of the other.

But the most pernicious of all taxes are the arbitrary. They are commonly converted, by their management, into punishments on industry; and also, by their unavoidable inequality, are more grievous, than by the real burden which they impose. It is surprising, therefore, to see them have place among any civilized people.

In general, all poll-taxes, even when not arbitrary, which they commonly are, may be esteemed dangerous: Because it is so easy for the sovereign to add a little more, and a little more, to the sum demanded, that these taxes are apt to become altogether oppressive and intolerable. On the other hand, a duty upon commodities checks itself; and a prince will soon find, that an encrease of the impost is no encrease of his revenue. It is not easy, therefore, for a people to be altogether ruined by such taxes.

Historians inform us, that one of the chief causes of the destruction of the Roman state, was the alteration, which Constantine introduced into the finances, by substituting an universal poll-tax, in lieu of almost all the tithes, customs, and excises, which formerly composed the revenue of the *empire*. The people, in all the provinces, were so grinded and oppressed by the *publicans*, that they were glad to take refuge under the conquering arms of the barbarians; whose dominion, as they had fewer necessities and less art, was found preferable to the refined tyranny of the Romans.

It is an opinion, zealously promoted by some political writers, that, since all taxes, as they pretend, fall ultimately upon land, it were better to lay them originally there, and abolish every duty upon consumptions. But it is denied, that all taxes fall

ultimately upon land. If a duty be laid upon any commodity, consumed by an artisan, he has two obvious expedients for paying it; he may retrench somewhat of his expence, or he may encrease his labour. Both these resources are more easy and natural, than that of heightening his wages. We see, that, in years of scarcity, the weaver either consumes less or labours more, or employs both these expedients of frugality and industry, by which he is enabled to reach the end of the year. It is but just, that he should subject himself to the same hardships, if they deserve the name, for the sake of the publick, which gives him protection. By what contrivance can he raise the price of his labour? The manufacturer who employs him, will not give him more: Neither can he, because the merchant, who exports the cloth, cannot raise its price, being limited by the price which it yields in foreign markets. Every man, to be sure, is desirous of pushing off from himself the burden of any tax, which is imposed, and of laying it upon others: But as every man has the same inclination, and is upon the defensive; no set of men can be supposed to prevail altogether in this contest. And why the landed gentleman should be the victim of the whole, and should not be able to defend himself, as well as others are, I cannot readily imagine. All tradesmen, indeed, would willingly prey upon him, and divide him among them, if they could: But this inclination they always have, though no taxes were levied; and the same methods, by which he guards against the imposition of tradesmen before taxes, will serve him afterwards, and make them share the burden with him. They must be very heavy taxes, indeed, and very injudiciously levied, which the artizan will not, of himself, be enabled to pay, by superior industry and frugality, without raising the price of his labour.

I shall conclude this subject with observing, that we have, with regard to taxes, an instance of what frequently happens in political institutions, that the consequences of things are diametrically opposite to what we should expect on the first appearance. It is regarded as a fundamental maxim of the Turkish government, that the *Grand Signior*, though absolute master of the lives and fortunes of each individual, has no authority to impose a new tax; and every Ottoman prince, who has made such an attempt, either has been obliged to retract, or has

found the fatal effects of his perseverance. One would imagine, that this prejudice or established opinion were the firmest barrier in the world against oppression; yet it is certain, that its effect is quite contrary. The emperor, having no regular method of encreasing his revenue, must allow all the bashaws and governors to oppress and abuse the subjects: And these he squeezes after their return from their government. Whereas, if he could impose a new tax, like our European princes, his interest would so far be united with that of his people, that he would immediately feel the bad effects of these disorderly levies of money, and would find, that a pound, raised by a general imposition, would have less pernicious effects, than a shilling taken in so unequal and arbitrary a manner.

Chapter 7

Of Public Credit.

IT appears to have been the common practice of antiquity, to make provision, during peace, for the necessities of war, and to hoard up treasures before-hand, as the instruments either of conquest or defence; without trusting to extraordinary impositions, much less to borrowing, in times of disorder and confusion. Besides the immense sums above mentioned,³⁴ which were amassed by Athens, and by the Ptolemies, and other successors of Alexander; we learn from Plato,³⁵ that the frugal Lacedemonians had also collected a great treasure; and Arrian³⁶ and Plutarch³⁷ take notice of the riches which Alexander got possession of on the conquest of Susa and Ecbatana, and which were reserved, some of them, from the time of Cyrus. If I remember right, the scripture also mentions the treasure of Hezekiah and the Jewish princes; as profane history does that of Philip and Perseus, kings of Macedon. The ancient republics of Gaul had commonly large sums in reserve.³⁸ Every one knows the treasure seized in Rome by Julius Caesar, during the civil wars: and we find afterwards, that the wiser emperors, Augustus, Tiberius, Vespasian, Severus, &c. always discovered the prudent foresight, of saving great sums against any public exigency.

On the contrary, our modern expedient, which has become very general, is to mortgage the public revenues, and to trust

34. Essay V. [Of the Balance of Trade.]

35. Alcib. i.

36. Lib. iii.

37. Plut. in vita Alex. He makes these treasures amount to 80,000 talents, or about 15 millions sterl. Quintus Curtius (lib. v. cap. 2.) says, that Alexander found in Susa above 50,000 talents.

38. Strabo, lib. iv.

that posterity will pay off the incumbrances contracted by their ancestors: And they, having before their eyes, so good an example of their wise fathers, have the same prudent reliance on *their* posterity; who, at last, from necessity more than choice, are obliged to place the same confidence in a new posterity. But not to waste time in declaiming against a practice which appears ruinous, beyond all controversy; it seems pretty apparent, that the ancient maxims are, in this respect, more prudent than the modern; even though the latter had been confined within some reasonable bounds, and had ever, in any instance, been attended with such frugality, in time of peace, as to discharge the debts incurred by an expensive war. For why should the case be so different between the public and an individual, as to make us establish different maxims of conduct for each? If the funds of the former be greater, its necessary expences are proportionably larger; if its resources be more numerous, they are not infinite; and as its frame should be calculated for a much longer duration than the date of a single life, or even of a family, it should embrace maxims, large, durable, and generous, agreeably to the supposed extent of its existence. To trust to chances and temporary expedients, is, indeed, what the necessity of human affairs frequently renders unavoidable; but whoever voluntarily depend on such resources, have not necessity, but their own folly, to accuse for their misfortunes, when any such befall them.

If the abuses of treasures be dangerous, either by engaging the state in rash enterprizes, or making it neglect military discipline, in confidence of its riches; the abuses of mortgaging are more certain and inevitable; poverty, impotence, and subjection to foreign powers.

According to modern policy war is attended with every destructive circumstance; loss of men, encrease of taxes, decay of commerce, dissipation of money, devastation by sea and land. According to ancient maxims, the opening of the public treasure, as it produced an uncommon affluence of gold and silver, served as a temporary encouragement to industry, and atoned, in some degree, for the inevitable calamities of war.

It is very tempting to a minister to employ such an expedient, as enables him to make a great figure during his administration, without overburthening the people with taxes, or exciting

any immediate clamours against himself. The practice, therefore, of contracting debt will almost infallibly be abused, in every government. It would scarcely be more imprudent to give a prodigal son a credit in every banker's shop in London, than to empower a statesman to draw bills, in this manner, upon posterity.

What then shall we say to the new paradox, that public incumbrances, are, of themselves, advantageous, independent of the necessity of contracting them; and that any state, even though it were not pressed by a foreign enemy, could not possibly have embraced a wiser expedient for promoting commerce and riches, than to create funds, and debts, and taxes, without limitation? Reasonings, such as these, might naturally have passed for trials of wit among rhetoricians, like the panegyrics on folly and a fever, on Busiris and Nero, had we not seen such absurd maxims patronized by great ministers, and by a whole party among us.

Let us examine the consequences of public debts, both in our domestic management, by their influence on commerce and industry; and in our foreign transactions, by their effect on wars and negotiations.

Public securities are with us become a kind of money, and pass as readily at the current price as gold or silver. Wherever any profitable undertaking offers itself, how expensive soever, there are never wanting hands enow to embrace it; nor need a trader, who has sums in the public stocks, fear to launch out into the most extensive trade; since he is possessed of funds, which will answer the most sudden demand that can be made upon him. No merchant thinks it necessary to keep by him any considerable cash. Bank-stock, or India-bonds, especially the latter, serve all the same purposes; because he can dispose of them, or pledge them to a banker, in a quarter of an hour; and at the same time they are not idle, even when in his scritoire, but bring him in a constant revenue. In short, our national debts furnish merchants with a species of money, that is continually multiplying in their hands, and produces sure gain, besides the profits of their commerce. This must enable them to trade upon less profit. The small profit of the merchant renders the commodity cheaper, causes a greater consumption,

quicken the labour of the common people, and helps to spread arts and industry throughout the whole society.

There are also, we may observe, in England and in all states, which have both commerce and public debts, a set of men, who are half merchants, half stock-holders, and may be supposed willing to trade for small profits; because commerce is not their principal or sole support, and their revenues in the funds are a sure resource for themselves and their families. Were there no funds, great merchants would have no expedient for realizing or securing any part of their profit, but by making purchases of land; and land has many disadvantages in comparison of funds. Requiring more care and inspection, it divides the time and attention of the merchant; upon any tempting offer or extraordinary accident in trade, it is not so easily converted into money; and as it attracts too much, both by the many natural pleasures it affords, and the authority it gives, it soon converts the citizen into the country gentleman. More men, therefore, with large stocks and incomes, may naturally be supposed to continue in trade, where there are public debts; and this, it must be owned, is of some advantage to commerce, by diminishing its profits, promoting circulation, and encouraging industry.

But, in opposition to these two favourable circumstances, perhaps of no very great importance, weigh the many disadvantages which attend our public debts, in the whole interior œconomy of the state: You will find no comparison between the ill and the good which result from them.

First, It is certain, that national debts cause a mighty confluence of people and riches to the capital, by the great sums, levied in the provinces to pay the interest; and perhaps, too, by the advantages in trade above mentioned, which they give the merchants in the capital above the rest of the kingdom. The question is, whether, in our case, it be for the public interest, that so many privileges should be conferred on London, which has already arrived at such an enormous size, and seems still encreasing? Some men are apprehensive of the consequences. For my own part, I cannot forbear thinking, that, though the head is undoubtedly too large for the body, yet that great city is so happily situated, that its excessive bulk causes less inconvenience than even a smaller capital to a greater kingdom.

There is more difference between the prices of all provisions in Paris and Languedoc, than between those in London and Yorkshire. The immense greatness, indeed, of London, under a government which admits not of discretionary power, renders the people factious, mutinous, seditious, and even perhaps rebellious. But to this evil the national debts themselves tend to provide a remedy. The first visible eruption, or even immediate danger, of public disorders must alarm all the stockholders, whose property is the most precarious of any; and will make them fly to the support of government, whether menaced by Jacobitish violence or democratical frenzy.

Secondly, Public stocks, being a kind of paper-credit, have all the disadvantages attending that species of money. They banish gold and silver from the most considerable commerce of the state, reduce them to common circulation, and by that means render all provisions and labour dearer than otherwise they would be.

Thirdly, The taxes, which are levied to pay the interests of these debts, are apt either to heighten the price of labour, or be an oppression on the poorer sort.

Fourthly, As foreigners possess a great share of our national funds, they render the public, in a manner, tributary to them, and may in time occasion the transport of our people and our industry.

Fifthly, The greater part of the public stock being always in the hands of idle people, who live on their revenue, our funds, in that view, give great encouragement to an useless and unactive life.

But though the injury, that arises to commerce and industry from our public funds, will appear, upon balancing the whole, not inconsiderable, it is trivial, in comparison of the prejudice that results to the state considered as a body politic, which must support itself in the society of nations, and have various transactions with other states in wars and negociations. The ill, there, is pure and unmixed, without any favourable circumstance to atone for it; and it is an ill too of a nature the highest and most important.

We have, indeed, been told, that the public is no weaker upon account of its debts; since they are mostly due among ourselves, and bring as much property to one as they take from

another. It is like transferring money from the right hand to the left; which leaves the person neither richer nor poorer than before. Such loose reasonings and specious comparisons will always pass, where we judge not upon principles. I ask, Is it possible, in the nature of things, to overburthen a nation with taxes, even where the sovereign resides among them? The very doubt seems extravagant; since it is requisite, in every community, that there be a certain proportion observed between the laborious and the idle part of it. But if all our present taxes be mortgaged, must we not invent new ones? And may not this matter be carried to a length that is ruinous and destructive?

In every nation, there are always some methods of levying money more easy than others, agreeably to the way of living of the people, and the commodities they make use of. In Great Britain, the excises upon malt and beer afford a large revenue; because the operations of malting and brewing are tedious, and are impossible to be concealed; and at the same time, these commodities are not so absolutely necessary to life, as that the raising of their price would very much affect the poorer sort. These taxes being all mortgaged, what difficulty to find new ones! what vexation and ruin of the poor!

Duties upon consumptions are more equal and easy than those upon possessions. What a loss to the public, that the former are all exhausted, and that we must have recourse to the more grievous method of levying taxes!

Were all the proprietors of land only stewards to the public, must not necessity force them to practise all the arts of oppression used by stewards; where the absence or negligence of the proprietor render them secure against enquiry?

It will scarcely be asserted, that no bounds ought ever to be set to national debts; and that the public would be no weaker, were twelve or fifteen shillings in the pound, land-tax, mortgaged, with all the present customs and excises. There is something, therefore, in the case, beside the mere transferring of property from the one hand to another. In 500 years, the posterity of those now in the coaches, and of those upon the boxes, will probably have changed places, without affecting the public by these revolutions.

Suppose the public once fairly brought to that condition, to which it is hastening with such amazing rapidity; suppose the

land to be taxed eighteen or nineteen shillings in the pound; for it can never bear the whole twenty; suppose all the excises and customs to be screwed up to the utmost which the nation can bear, without entirely losing its commerce and industry; and suppose that all those funds are mortgaged to perpetuity, and that the invention and wit of all our projectors can find no new imposition, which may serve as the foundation of a new loan; and let us consider the necessary consequences of this situation. Though the imperfect state of our political knowledge, and the narrow capacities of men, make it difficult to foretel the effects which will result from any untried measure, the seeds of ruin are here scattered with such profusion as not to escape the eye of the most careless observer.

In this unnatural state of society, the only persons, who possess any revenue beyond the immediate effects of their industry, are the stock-holders, who draw almost all the rent of the land and houses, besides the produce of all the customs and excises. These are men, who have no connexions with the state, who can enjoy their revenue in any part of the globe in which they chuse to reside, who will naturally bury themselves in the capital or in great cities, and who will sink into the lethargy of a stupid and pampered luxury, without spirit, ambition, or enjoyment. Adieu to all ideas of nobility, gentry, and family. The stocks can be transferred in an instant, and being in such a fluctuating state, will seldom be transmitted during three generations from father to son. Or were they to remain ever so long in one family, they convey no hereditary authority or credit to the possessor; and by this means, the several ranks of men, which form a kind of independent magistracy in a state, instituted by the hand of nature, are entirely lost; and every man in authority derives his influence from the commission alone of the sovereign. No expedient remains for preventing or suppressing insurrections, but mercenary armies: No expedient at all remains for resisting tyranny: Elections are swayed by bribery and corruption alone: And the middle power between king and people being totally removed, a grievous despotism must infallibly prevail. The landholders, despised for their poverty, and hated for their oppressions, will be utterly unable to make any opposition to it.

Though a resolution should be formed by the legislature never to impose any tax which hurts commerce and discourages industry, it will be impossible for men, in subjects of such extreme delicacy, to reason so justly as never to be mistaken, or amidst difficulties so urgent, never to be seduced from their resolution. The continual fluctuations in commerce require continual alterations in the nature of the taxes; which exposes the legislature every moment to the danger both of wilful and involuntary error. And any great blow given to trade, whether by injudicious taxes or by other accidents, throws the whole system of government into confusion.

But what expedient can the public now employ, even supposing trade to continue in the most flourishing condition, in order to support its foreign wars and enterprizes, and to defend its own honour and interests, or those of its allies? I do not ask how the public is to exert such a prodigious power as it has maintained during our late wars; where we have so much exceeded, not only our own natural strength, but even that of the greatest empires. This extravagance is the abuse complained of, as the source of all the dangers, to which we are at present exposed. But since we must still suppose great commerce and opulence to remain, even after every fund is mortgaged; these riches must be defended by proportional power; and whence is the public to derive the revenue which supports it? It must plainly be from a continual taxation of the annuitants, or, which is the same thing, from mortgaging anew, on every exigency, a certain part of their annuities; and thus making them contribute to their own defence, and to that of the nation. But the difficulties, attending this system of policy, will easily appear, whether we suppose the king to have become absolute master, or to be still controuled by national councils, in which the annuitants themselves must necessarily bear the principal sway.

If the prince has become absolute, as may naturally be expected from this situation of affairs, it is so easy for him to increase his exactions upon the annuitants, which amount only to the retaining money in his own hands, that this species of property would soon lose all its credit, and the whole income of every individual in the state must lie entirely at the mercy of the sovereign: A degree of despotism, which no oriental

monarchy has ever yet attained. If, on the contrary, the consent of the annuitants be requisite for every taxation, they will never be persuaded to contribute sufficiently even to the support of government; as the diminution of their revenue must in that case be very sensible, would not be disguised under the appearance of a branch of excise or customs, and would not be shared by any other order of the state, who are already supposed to be taxed to the utmost. There are instances, in some republics, of a hundredth penny, and sometimes of the fiftieth, being given to the support of the state; but this is always an extraordinary exertion of power, and can never become the foundation of a constant national defence. We have always found, where a government has mortgaged all its revenues, that it necessarily sinks into a state of languor, inactivity, and impotence.

Such are the inconveniencies, which may reasonably be foreseen, of this situation, to which Great Britain is visibly tending. Not to mention, the numberless inconveniencies, which cannot be foreseen, and which must result from so monstrous a situation as that of making the public the chief or sole proprietor of land, besides investing it with every branch of customs and excise, which the fertile imagination of ministers and projectors have been able to invent.

I must confess, that there is a strange supineness, from long custom, crept into all ranks of men, with regard to public debts, not unlike what divines so vehemently complain of with regard to their religious doctrines. We all own, that the most sanguine imagination cannot hope, either that this or any future ministry will be possessed of such rigid and steady frugality, as to make a considerable progress in the payment of our debts; or that the situation of foreign affairs will, for any long time, allow them leisure and tranquillity for such an undertaking. *What then is to become of us?* Were we ever so good Christians, and ever so resigned to Providence; this, methinks, were a curious question, even considered as a speculative one, and what it might not be altogether impossible to form some conjectural solution of. The events here will depend little upon the contingencies of battles, negotiations, intrigues, and factions. There seems to be a natural progress of things, which may guide our reasoning. As it would have required but a

moderate share of prudence, when we first began this practice of mortgaging, to have foretold, from the nature of men and of ministers, that things would necessarily be carried to the length we see; so now, that they have at last happily reached it, it may not be difficult to guess at the consequences. It must, indeed, be one of these two events; either the nation must destroy public credit, or public credit will destroy the nation. It is impossible that they can both subsist, after the manner they have been hitherto managed, in this, as well as in some other countries.

There was, indeed, a scheme for the payment of our debts, which was proposed by an excellent citizen, Mr. Hutchinson, above thirty years ago, and which was much approved of by some men of sense, but never was likely to take effect. He asserted, that there was a fallacy in imagining that the public owed this debt; for that really every individual owed a proportional share of it, and paid, in his taxes, a proportional share of the interest, beside the expence of levying these taxes. Had we not better, then, says he, make a distribution of the debt among ourselves, and each of us contribute a sum suitable to his property, and by that means discharge at once all our funds and public mortgages? He seems not to have considered, that the laborious poor pay a considerable part of the taxes by their annual consumptions, though they could not advance, at once, a proportional part of the sum required. Not to mention, that property in money and stock in trade might easily be concealed or disguised; and that visible property in lands and houses would really at last answer for the whole: An inequality and oppression, which never would be submitted to. But though this project is not likely to take place; it is not altogether improbable, that, when the nation becomes heartily sick of their debts, and is cruelly oppressed by them, some daring projector may arise with visionary schemes for their discharge. And as public credit will begin, by that time, to be a little frail, the least touch will destroy it, as happened in France during the regency; and in this manner it will *die of the doctor*.

But it is more probable, that the breach of national faith will be the necessary effect of wars, defeats, misfortunes, and public calamities, or even perhaps of victories and conquests. I must confess, when I see princes and states fighting and

quarrelling, amidst their debts, funds, and public mortgages, it always brings to my mind a match of cudgel-playing fought in a *China* shop. How can it be expected, that sovereigns will spare a species of property, which is pernicious to themselves and to the public, when they have so little compassion on lives and properties, that are useful to both? Let the time come (and surely it will come) when the new funds, created for the exigencies of the year, are not subscribed to, and raise not the money projected. Suppose, either that the cash of the nation is exhausted; or that our faith, which has hitherto been so ample, begins to fail us. Suppose, that, in this distress, the nation is threatened with an invasion; a rebellion is suspected or broken out at home; a squadron cannot be equipped for want of pay, victuals, or repairs; or even a foreign subsidy cannot be advanced. What must a prince or minister do in such an emergency? The right of self-preservation is unalienable in every individual, much more in every community. And the folly of our statesmen must then be greater than the folly of those who first contracted debt, or, what is more, than that of those who trusted, or continue to trust this security, if these statesmen have the means of safety in their hands, and do not employ them. The funds, created and mortgaged, will, by that time, bring in a large yearly revenue, sufficient for the defence and security of the nation: Money is perhaps lying in the exchequer, ready for the discharge of the quarterly interest: Necessity calls, fear urges, reason exhorts, compassion alone exclaims: The money will immediately be seized for the current service, under the most solemn protestations, perhaps, of being immediately replaced. But no more is requisite. The whole fabric, already tottering, falls to the ground, and buries thousands in its ruins. And this, I think, may be called the *natural death* of public credit: For to this period it tends as naturally as an animal body to its dissolution and destruction.

So great dupes are the generality of mankind, that, notwithstanding such a violent shock to public credit, as a voluntary bankruptcy in England would occasion, it would not probably be long ere credit would again revive in as flourishing a condition as before. The present king of France, during the late war, borrowed money at lower interest than ever his grandfather did; and as low as the British parliament, comparing the

natural rate of interest in both kingdoms. And though men are commonly more governed by what they have seen, than by what they foresee, with whatever certainty; yet promises, protestations, fair appearances, with the allurements of present interest, have such powerful influence as few are able to resist. Mankind are, in all ages, caught by the same baits: The same tricks, played over and over again, still trepan them. The heights of popularity and patriotism are still the beaten road to power and tyranny; flattery to treachery; standing armies to arbitrary government; and the glory of God to the temporal interest of the clergy. The fear of an everlasting destruction of credit, allowing it to be an evil, is a needless bugbear. A prudent man, in reality, would rather lend to the public immediately after we had taken a sponge to our debts, than at present; as much as an opulent knave, even though one could not force him to pay, is a preferable debtor to an honest bankrupt: For the former, in order to carry on business, may find it his interest to discharge his debts, where they are not exorbitant: The latter has it not in his power. The reasoning of Tacitus,³⁹ as it is eternally true, is very applicable to our present case. *Sed vulgus ad magnitudinem beneficiorum aderat: Stultissimus quisque pecuniis mercabatur: Apud sapientes cassa habebantur, quae neque dari neque accipi, salva republica, poterant.* The public is a debtor, whom no man can oblige to pay. The only check which the creditors have upon her, is the interest of preserving credit; an interest, which may easily be overbalanced by a great debt, and by a difficult and extraordinary emergence, even supposing that credit irrecoverable. Not to mention, that a present necessity often forces states into measures, which are, strictly speaking, against their interest.

These two events, supposed above, are calamitous, but not the most calamitous. Thousands are thereby sacrificed to the safety of millions. But we are not without danger, that the contrary event may take place, and that millions may be sacrificed for ever to the temporary safety of thousands.⁴⁰ Our popular government, perhaps, will render it difficult or dangerous for a minister to venture on so desperate an expedient, as that of a voluntary bankruptcy. And though the house of Lords be altogether composed of proprietors of land, and the house of

39.Hist. lib. iii.

Commons chiefly; and consequently neither of them can be supposed to have great property in the funds. Yet the connections of the members may be so great with the proprietors, as to render them more tenacious of public faith, than prudence, policy, or even justice, strictly speaking, requires. And perhaps too, our foreign enemies may be so politic as to discover, that our safety lies in despair, and may not, therefore, show the danger, open and barefaced, till it be inevitable. The balance of power in Europe, our grandfathers, our fathers, and we, have all deemed too unequal to be preserved without our attention and assistance. But our children, weary of the struggle, and fettered with incumbrances, may sit down secure, and see their neighbours oppressed and conquered; till, at last, they themselves and their creditors lie both at the mercy of the conqueror. And this may properly enough be denominated the *violent death* of our public credit.

These seem to be the events, which are not very remote, and which reason foresees as clearly almost as she can do any thing that lies in the womb of time. And though the ancients maintained, that in order to reach the gift of prophecy, a certain divine fury or madness was requisite, one may safely affirm, that, in order to deliver such prophecies as these, no more is necessary, than merely to be in one's senses, free from the influence of popular madness and delusion.

40. I Have heard it has been computed, that all the creditors of the public, natives and foreigners, amount only to 17,000. These make a figure at present on their income; but in case of a public bankruptcy, would, in an instant, become the lowest, as well as the most wretched of the people. The dignity and authority of the landed gentry and nobility is much better rooted; and would render the contention very unequal, if ever we come to that extremity. One would incline to assign to this event a very near period, such as half a century, had not our fathers' prophecies of this kind been already found fallacious, by the duration of our public credit so much beyond all reasonable expectation. When the astrologers in France were every year foretelling the death of Henry IV. These fellows, says he, must be right at last. We shall, therefore, be more cautious than to assign any precise date; and shall content ourselves with pointing out the event in general.

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