

CHAP. X.

Are taxes a spur to industry, as some pretend?

IT is not easy to find out, *a priori*, how taxes should prove a spur to industry. What makes several people adopt this opinion is their feelings, in consequence of many circumstances arising from experience, rather than what reason, or the nature of the thing has pointed out. But as nothing can be produced without an adequate and natural cause, it is proper to examine this political problem, by an application of the principles we have laid down in the former chapters. If these be just, we shall discover by them, how it happens that in countries where taxes are high, where living is dear, and where every circumstance seems to render the means of subsistence difficult to obtain, people live in the greatest plenty, are best and most easily subsisted, and that industry there makes the greatest progress.

For the solution of this question, let us call to mind the principles which influence the multiplication of mankind, and the increase of labour and industry, laid down in the first book. We there explained how the wants of mankind promote their multiplication.

Money, the instrument of alienation, was represented as the primum mobile in this operation; a desire in the rich of acquiring every thing with money, that is *demand*, was shewn to be the spur to industry in the poor. It was said, that if riches did not inspire a taste for luxury, that is for the consumption of the labour of man, these riches would not circulate; and that they would then be adored rather as a god, than made subservient to the uses of men.

Connect herewith that the imposition of taxes is a method of bringing money into circulation; that those of the proportional

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kind have the effect of drawing from the rich, an additional price upon every thing they buy, which goes for the use of the state, and which otherwise would not have entered into circulation at that time.

From these principles, I conclude, that taxes promote industry; not in consequence of their being raised upon individuals, but in consequence of their being expended by the state; that is, by increasing demand and circulation.

From the principles above laid down, I cannot discover the shadow of a reason, to conclude that the taking arbitrarily away from some individuals, a part of their gains by cumulative taxes, or proportionally from others, by augmenting the price of what they buy and consume, must in any respect imply an incitement in the consumers to demand more; and without this it never can excite the industrious to augment the supply.

I readily allow that every one who has been obliged to pay a tax, may have a desire to indemnify himself of the expence he has been put to, by augmenting his industry; but if on the other hand, taxes have put every one to a considerable additional expence, in proportion to his estate, it would be absurd to allege this diminution of his fortune, as the cause of a desire to augment his consumption.

Examine on the other hand, the use made by the state of the money raised, and you will easily perceive the justness, I think, of the above mentioned principles. This money belongs to the public, and is administered by private people. Public expence is defrayed with a full hand; they who bestow the money, bestow it for the public, not for themselves; and they who work for the public, find, or ought to find, the greatest encouragement to be diligent.

Every application of public money implies a want in the state; and every want supplied, implies an encouragement given to industry. In proportion, therefore, as taxes draw money into circulation, which otherwise would not have entered into it at that time,

time, they encourage industry; not by taking the money from individuals, but by throwing it into the hands of the state, which spends it; and which thereby throws it directly into the hands of the industrious, or of the luxurious who employ them.

It is no objection to this representation of the matter, that the persons from whom the money is taken, would have spent it as well as the state. The answer is, that it might be so, or not: whereas when the state gets it, it will be spent undoubtedly. Besides, had it been spent by individuals, it would have been laid for the supply of private wants, which are not near so extensive as those of the public: and farther, when money is so taken from rich individuals, it obliges them to find out a way of procuring more, out of their solid property; and when this facility is not procured for them by their statesman, we see how taxes become both oppressive and ill paid. On the contrary, when it is provided, either by the returns of foreign trade, which greatly augment the coin of a country; or by banks, which melt down property into paper circulation; we see taxes augmenting constantly, without creating any impediment to consumption, or discouragement to industry. All these consequences hang in a chain, and hence the solidity of the principles upon which they depend may be gathered.

After this solution of the question proposed, let those who are versed in history combine circumstances, and examine whether facts do not prove the truth of what I have said.

During the time of the Roman empire, when the riches of Asia flowed into the coffers of Rome, and were constantly exhausted by the prodigality of the emperors, we perceive, from many circumstances, to what a degree the consumption of superfluities augmented. The price of certain commodities rose to an excessive height; industrious people, of the lowest extraction, were daily seen to amass prodigious fortunes: these are proofs of circulation. But when we consider the expences of a Lucullus, or of a Crassus, who consumed, it is said, the work of ten thousand slaves,

slaves, and compare the consequence of that consumption with the expence of a modern, who should consume the industry of ten thousand freemen, we shall find a wonderful difference in the effects of the one and of the other, with respect to circulation, and the encouragement given to industry.

There was no alienation between Crassus and his ten thousand slaves, notwithstanding all the work consumed; consequently, the only circulation implied by this consumption was in proportion to the necessaries which the master was obliged to purchase for so great a multitude: and if we still suppose all those necessaries to have been produced by their own labour, then the state of Rome could not, but by an arbitrary imposition laid upon Lucullus and Crassus, draw one farthing out of their coffers; consequently, industry could not increase in proportion to the loads of wealth brought from Asia by those generals. Whereas were Lucullus now at London, or at Paris, he would not be able to spend a shilling, without giving a penny, and perhaps more, out of his treasure to the state, which would immediately throw it back into circulation.

As we are now on the subject of circulation among the ancients, let me briefly trace the progress of it in Europe, through different modifications, to our own times, and so close this chapter.

When the seat of empire was translated to Constantinople, and all the Asiatic provinces attached to the Emperors of the East, a stop was put to the augmentation of coin and bullion in the empire of the West. A considerable part of what had formerly been there returned to Constantinople, and the remainder fell a prey to the barbarous nations which overran it. This may be called the first period.

These barbarians, by enslaving all the ancient inhabitants, and by forcing them to perform every kind of service, must have had little use for coin. What they coined appears to have been broad and thin.

Let any one reflect upon the insensible waste of silver plate, and the still greater loss on coin which circulates; the vast sums carried

off in the time of the Croisades; the quantities buried or thrown into rivers in times of devastation; and add to these circumstances, that from the fifth century after Christ, till the discovery of the Indies, there was, probably, little or no silver or gold brought into Europe; and it will appear very natural, that coin should have been at that time much more scarce than formerly.

How contracted circulation was during the 13th and 14th centuries, may be gathered from the anecdote concerning alienation in France, mentioned in the third chapter upon public credit.

But farther, the great subordination established by the feudal form of government, and the military services to which such numbers were bound, had the effect of preserving the ancient simplicity of manners, so unfavourable to industry. The consequence was, that Princes could raise no taxes; and that all the money the people had was locked up in their chests. We know there were in those days abundance of wealthy people; but their wealth inspired them with no disposition to consume at the expence of ready money.

The discovery of the Indies opened a third period, and threw great riches into the hands of the Spaniards: the house of Austria was the first enriched, and appeared with great splendor for some time. Charles V. by his extensive dominions, had an opportunity of distributing this new gotten treasure among his subjects in Flanders, his native country: this set industry to work in that quarter. The Portuguese discovered the East Indies: a new enticement to luxury; a new motive to become expensive. The Hollanders became a trading people, and with the money which their industry had drawn from the magnificent Spaniard, they shook off his yoke. Money insensibly began to circulate. Princes immediately found, as has been said in the second book, that it was necessary for them also to augment their revenue, in order to maintain a proper superiority over their subjects in point of riches. The increase of circulation among individuals made it more easy to raise taxes; and the throwing the amount of them back again, in gratifications to the chief people of the state, engaged those who came by money in a man-
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ner gratuitously, to expend it as freely as they received it. No wonder, then, if Princes found it an easy matter to load their subjects. They were supported in this scheme by the great men of the state, who found a benefit from it. This revolution has totally changed the face of affairs in the present period of circulation. Courts are splendid; armies are numerous; buildings, in cities and in the country, are magnificent; an old city, compared with a new one, appears hideous; all public works are carried on with that solidity which we admire in those of ancient Princes and states, when nations led into captivity were employed to perform them. In those days the magnificence of Princes was in proportion to the groans of their subjects; now they are in proportion to their wealth and ease. Whence proceeds the difference, the effects are the same? From good government, and a well regulated political oeconomy.

C H A P. XI.

Considerations upon Land-Taxes, with some Observations upon those of England and France.

OF all the kinds of cumulative taxes, that which is properly imposed upon lands seems the best: that is, it implies the fewest inconveniences to the persons paying, and to the state in raising it. That it is an unequal imposition is plain and certain: this character is unavoidably attached to every species of cumulative taxes, in one way or other. It has also the effect of casting a general discredit upon the purchase and improvement of land; because the proprietors are naturally exposed to augmentations, which may, almost with the same ease, be carried to the total amount of the income, as to any proportional part of it. This has
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been mentioned in a former chapter, where the interest of a nation's debts was supposed to increase so as to equal the value of all the land-rents, and the whole revenue of individuals.

Land-taxes are imposed in various forms in different countries, and all are supposed to bear a determinate proportion to the rent. This, however, is never, nor indeed can it ever be the case. The value of land is varying perpetually, from the industry of the inhabitants. Besides this inequality, there are other inconveniences proceeding from the unequal distribution of property. In Scotland, for instance, land is divided into large portions; very few small lots are to be found. The class of farmers, for the most part, labour the lands of others, who have large possessions. This is less the case, I believe, in England, and still less in France and in Germany. A land-tax, therefore, being supposed universal, would, in Scotland, do little harm: in England, it falls heavier upon the small proprietors; because the sum exacted bears a greater proportion to the supposed superfluity of the proprietor. In France, it is still worse; for there the exemptions of the numerous class of nobles, and many other circumstances mentioned above, entirely destroy even the shadow of proportion. It is out of my way to enter into any long detail upon this head, with respect to different countries.

I shall therefore confine myself to a very few observations upon the method of laying this tax in England; and upon a project which has been long in agitation in France, to raise their land-tax by way of tithe upon the fruits.

This scheme was first proposed to the late King of France by the *Marechal de Vauban*, in 1699, and the proposal was renewed some years ago in a performance called the *Reformateur*. But as it would prove hurtful and burdensome to France, in a great degree, from a circumstance which has not been attended to, the examination of this system of taxation will serve as a good illustration of this part of our subject.

The land-tax in England has, in my humble opinion, two remarkable defects. First, The sums imposed at so many shillings in the

the pound upon every district of the kingdom, whether cities, towns, universities, or open country, even upon the King's palaces, inns of court, &c. are not distributed according to any rule of proportion upon the property of individuals; but this operation is left to assessors.

Secondly, All personal estates, except property in the public funds, and stock upon land, supposed necessary for agriculture, are charged in the same proportion as land-rents.

I shall now point out the inconveniences and bad consequences of these two capital defects.

When a tax is imposed at so many shillings in the pound upon the income of a whole district, every article of the property which produces it ought to be specified. If this be omitted, there is a legislative authority vested in those who make the distribution.

The articles which compose the whole property, and the revenue of each article being once determined, the state has it in its power to impose the tax according to what proportion it thinks fit; of one, two, or more shillings in the pound. But then, in favour of the contributors, the different articles which produce the supposed total, ought either to be specified in the law, or reference should be made to a book of valuation where they are recorded.

It is no easy matter to frame the valuation of all the property of a country: and it is a scheme I should be very far from proposing; unless the spirit of a nation took such a turn as to wish for it. But where a determinate sum has been in use to be levied upon a certain district, it does not appear so difficult to make a proportional distribution of it according to equity, and to adhere for the future to that distribution, considering it as a *proportional* valuation, if not a *real* one. This is done every year, and without it no such tax could

* That the assessments, in the annual act for the land-tax, are generally understood to be at the rate of 1, 2, 3, or 4 shillings in the pound, is true; but it is to be observed, that no such rate is mentioned in the statute with respect to real estates or land. The rate of a certain number of shillings in the pound occurs only with regard to personal property.

be raised. But when annual distributions are made, discontents constantly arise; and the pretended equality thereby observed, produces worse effects than the inequalities which would follow from the other scheme: because the change in the relative value of possessions would then be chiefly owing to the industry of every proprietor in improving his lot.

How valuations in England were made originally I cannot tell*; but in Scotland, it is very certain, that as to lands they were all set down in a book of valuation at their supposed rents at that time. So let the sum raised be what it will, every man at least knows that his proportion must be according to his valuation in the general register.

In England, the case is totally different. The proportion every district is to pay, is indeed recorded by an original distribution made many years ago in King William's time. By this it appears what every city, county, university, &c. is to pay according as the tax is imposed at one, two, three, or four shillings in the pound. This is precisely the regulation in France, as shall be more fully observed; but still such regulations nowise prevent the most grievous inconveniences which attend this tax; because the burden of it does not

* There is no vestige in the history of England, since Dooms-day book, of any regular valuation being made of all the *lands* of the kingdom, nor of any tax imposed, singly, on that branch of property.

The subsidies, monthly assessments, and pound rates, in the different stages of the monarchy, have all been mixed duties; composed of a charge upon the lands, upon the money and personal estates of the subject, and frequently including a poll-tax, where qualities, that is rank, were differently charged.

The whole operation of distributing and raising this duty, has been by commissioners named by the King, or by parliament, who sometimes upon oath, and sometimes not, inquired into the extent of every one's private fortune, and assessed them accordingly. Whoever wishes to have a more full account of this confused method of raising a land-tax in England, may consult Davenant's Ways and Means, Article of Monthly Assessments, and Aids upon a Pound-rate.

consist in the total amount, so much as in the partial distribution upon the inhabitants in every subdivision.

In England, let me suppose the proportion of the general sum for a particular district to be ten thousand pounds, at four shillings in the pound. How is this to be levied as the law stands? Instead of books of valuation, which shew at least the proportion of every man's property, if not the real value of it, assessors are constantly called in, who examine the rents of all the lands according to the last leases of them. If they have been improved and let at a higher rent than formerly, the proportion of the tax is augmented. If they have not been let, but still remain in the possession of him who improved them, the tax is not augmented. If the tax be found to fall too heavy upon the lands and houses, then personal estates are made to contribute, as is the case in London. All questions or disputes about the repartition of the tax are determined, without appeal to the courts of law, by the commissioners appointed for laying on the tax; as in France they are determined by the Intendant. Without this regulation all would run into confusion, for the reason I am now going to mention, and which regards the second defect in this tax.

Any proprietor of lands is entitled, from the words of the statute, to insist that the whole personal estates of those of the district shall enter into computation of the total value upon which the sum imposed is to be assessed. Were such questions to come before a court of law, where the judges are obliged to determine almost according to the letter of it, I believe no land-tax could be levied in that kingdom. But manners, not laws, govern mankind. The spirit of the English nation is such, as to be incompatible with every thing which favours of oppression. Hence the few complaints against the assessors, or those who judge between parties. And as the land-tax is levied without any complaints, except as to the total amount; while that remains the case, the fewer the innovations made upon it are, the better.

In France, the sum of the *taille* to be raised upon the kingdom for the year is determined in the King's council; and the proportion of every district (called an *Election*) is there particularly specified. The district of an Intendant is called a generality, and comprehends in it several elections. The Intendant, therefore, makes the distribution of the general sum imposed upon every election; and upon every town, village, and parish in it, according to a certain proportion; and rules are prescribed to the collectors of every parish, concerning the method of taxing every species of income, every emolument of industry, even every animal in the possession of those who are subject to this tax. This proportion is calculated to carry the most scrupulous attention to every man's gain, upon all effects belonging to him; and upon every possibility of making profit by industry. All this is carried into execution with the greatest seeming equality in the minute subdivisions.

But as the first imposition of the tax is not proportioned to the actual value of the income it is intended to affect, and as the Intendant does not set out by a particular valuation of every man's possession, before he distributes the tax upon the several parishes, he is obliged to make up the deficiencies by second and third distributions.

Although this *taille* affects every species of property producing an income, as well as every kind of industry and employment, it does not affect every landlord for his rent, so much as every cultivator under lease, for his supposed profits.

Land-rents in France belong, for the most part, to the higher classes; and these, whether they be well born or not, are exempted from this tax, providing they be *noble*; a word which has no reference to birth, but to certain privileges which any man, who has money, may acquire.

It was in order to avoid this exemption, that the Marechal de Vauban wanted to substitute a tenth instead of the present *taille*; for a reason we shall presently see.

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All the land-rents, therefore, of the nobles are exempted from the *taille*, and are only affected by vingtiemes and dixiemes; but when they cultivate their own lands, their privilege of exemption from the *taille* is confined to as much as four ploughs can labour; and this farming must be carried on by menial servants, unmarried, in order to prevent such proprietors from defrauding the tax, by really letting their lands under pretext of holding them in farm.

This exemption, as to their land-rents, is more apparent, however, than real. It is not the *lands* of the nobles, but the *rent* paid out of them which is exempted from the *taille*; consequently, by imposing an exorbitant *taille* upon the lessee, very little remains for the land-rent; and this tax being laid upon a set of people who are loaded with many others, is in the end more burdensome to the proprietor, than if he paid it himself. But a change in this policy is impracticable. The gentlemen of France will probably never submit to a *taille*; and although, by yielding up that point of delicacy, their rents might be raised in the end; yet as matters stand, they know they enjoy the rents they have, free of tax, and if once they were made to pay any part of them, they do not know where such payments might terminate.

To avoid the infinite oppression which results from the French principle of sharing every man's profit as soon as he makes it, the Marechal de Vauban proposed to abolish the *taille*, as it is paid at present, together with the *capitation*, *industrie*, and all the train of cumulative taxes committed to the management of the Intendants; and to establish in their room what he called a royal Tenth, meaning by this term, a proportion of all the fruits of the earth, similar to what is established in favour of the clergy. This he proposed to lay on, according to the exigencies of the state, from one twentieth part to one tenth upon every article of the gross produce of land, over all France. This he imagined to be equal to one tenth of the land-rent. And the author of a book published under the title of the *Reformateur*, containing a new plan of taxation, in which there are some things worthy of observation, follows in this particular the

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Marechal de Vauban, without ever considering the true nature of a tax of this kind.

Of all the taxes upon the income of land-property, the tithe is the worst; and it has undoubtedly been established among men, before agriculture or taxes were understood. Lands in all countries are of different qualities: some are proper for bearing rich crops of grain, others are indifferent; some produce pasture, others forrest; the revenue of some consists in wine, in mines, and in a thousand different productions, which cost, some more, some less expence to cultivate. The tithe takes without distinction a determinate proportion of the fruits, in which is comprehended the tithe of all the industry and expence bestowed to bring them forward. As an example of this, let me suppose a field of corn, which cannot pay the proprietor above $\frac{1}{3}$ of the grain it produces, many I know cannot pay above $\frac{1}{4}$; but let me suppose it $\frac{1}{5}$; another may pay with ease $\frac{1}{3}$; another even $\frac{1}{2}$; the fields about Padoua pay $\frac{1}{4}$; grass fields pay still more; and rich hay fields will pay in some places $\frac{1}{3}$, and even $\frac{1}{2}$.

How then is it possible there should be any equality in a tax which carries off, without distinction, a certain proportion of the fruits, when those fruits bear no determinate proportion at all to the expence of raising them? But besides the inequality of this tax among proprietors, I ask how it is possible that any rent should be determined for lands, which are subject to a *variable* tithe, sometimes at $\frac{1}{4}$, sometimes at $\frac{1}{5}$ of the produce? Let me demonstrate the impossibility of such a plan, by an example.

I suppose the Marechal's plan established, and that the tithe to be imposed is to be deducted from the rent stipulated between master and tenant. This was his intention: he has in many places declared, that all tithes were to come out of the land-rent, which indeed is the only fund upon which a land-tax ought to be established. And he has as often declared that he never intended this land-tax should exceed one tenth of the rent, or two shillings in the pound.

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I suppose a field, producing every year 1000 bushels of grain, to be let: it is to pay a variable tithe, sometimes of 100 bushels; sometimes of 50, according to the exigencies of the state. I farther suppose one third of the produce to be equal to what the farmer can pay the landlord for rent. And I suppose the rent to be paid in bushels of grain.

According to these suppositions, the rent must be $333\frac{1}{3}$ bushels subject to the tithe. Suppose it to be laid on at $\frac{1}{5}$, or 100 bushels. Deduct this from $333\frac{1}{3}$, remains to the proprietor $233\frac{1}{3}$. The tithe comes next year to $\frac{1}{4}$; this makes 50 of deduction, remains to him $283\frac{1}{3}$. So instead of 10 per cent. of his rent, he pays in the first case 30 per cent. and when at the lowest, he pays 15 per cent. which is thrice as much as the Marechal proposed to take.

But how are masters and tenants to reckon with one another? Lands are not let according to a determinate proportion of increase. Suppose an estate in lands of different kinds, how is the tithe to be deducted then? Is the master to take the tenant's word both for the quantity and the value of every article he has paid as tithe, of every field, of every article in his possession, even of the chickens in his yard? If on the other hand, this variable tithe is to be thrown upon the possessor, which, indeed, is the only possible supposition, which way are lands to be let, when we see that the difference of the imposition, at different times, is no less than 15 per cent. or three shillings in the pound? This, however, would be the only method for masters and tenants to reckon.

But let me suppose another proprietor to let a grass field adjacent to that which bears grain, and that both were to be of an equal rent, supposing all tithes out of the way. The gross produce of the grass would be to the rent, little above the proportion of 4 to 3. Let us then call the gross produce 1000, as in the other case, $\frac{1}{3}$ of which would be 750, for the rent. One tenth of the whole taken from that would leave the rent at 650, or little above 13 per cent. deduction at the highest tithe, and 6 per cent. at the lowest.

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What inequality, therefore, would not such an imposition occasion upon land-rents, and what inextricable difficulties in letting of grounds? From what has been said, without farther inquiry, we may declare that no land-tax can possibly be raised, with any equality, by a royal tithe; and the Marechal has never considered farther, than how the King could with certainty and ease to himself, appropriate a portion of the lands in his kingdom, leaving the proprietors and their tenants to settle accounts the best way they could.

On the whole, nothing can make us approve of the Marechal's royal tithe, unless it be the present oppression which proceeds from the method of levying the *taille*; by which it happens that in France few incline to acquire the full property of lands.

Most of the great estates consist of fee-farm rents. A man of three thousand a year land-estate, covers sometimes with his nominal property (*dominium directum*) a whole country of fifty parishes; but the real property (*dominium utile*) of this vast extent is subdivided into a number of small fees, of which he is only lord paramount; and what remains is the property of the lower classes, who pay what is called *Rentes-Seigneuriales*, or noble rents, consisting in money and grain. These rents can nowise be affected by any tithe imposed; because they bear no proportion to the produce: and supposing they did, as in some provinces, where they are called *agriery*, (which is the $\frac{1}{4}$ or $\frac{1}{3}$ sheaf paid to the lord) the tithe, instead of taking a tenth of the *agrier*, takes a tenth of the whole crop; consequently, only one tenth of this sixth or eighth sheaf falls upon the lord; the tithe of all the rest falls upon the poor proprietor or lessee, who the more he is industrious is oppressed the more by this imposition; because it carries off the tenth of his expence and labour, as well as of the farm which he rents.

This is the tax which the Marechal de Vauban recommended to be raised universally over all the land-property of France, when the tithe was at the highest. To this the late reformer adheres; but proposes the twentieth instead of the tenth; and after a nice calculation

of the gross produce of France, he estimates one twentieth part of it to be worth about 95 millions of livres *per annum*. Hence I conclude, that the twentieth part of the income, or one shilling in the pound of all the revenue of solid property in France, fairly collected, would not much exceed one third of that sum, or about 30 millions, or 1 333 333 $\frac{1}{3}$ sterling. This first part, therefore, of the Marechal's tithe, imposed at $\frac{1}{20}$, would lay a tax equal to three shillings in the pound on the poor lessees and vassals of the nobles, while, contrary to his express intention, the whole fee-farm and noble rents of France, would escape taxation. From this we may conclude, that no tax upon land-rents can possibly be raised by way of tithe: as also that when it is taken in kind it is the most oppressive, the most unequal, and the most discouraging to industry, that ever was contrived.

The Marechal's principal motive for proposing this mode of taxation, was to avoid the difficulty of obliging the nobles to pay the *taille*. He found also, that there would be great ease in collecting this revenue for the King, without demanding money of the lower classes. The consequence, however, would have been, either to ruin all lessees, if they continued to pay the same rent for the lands as formerly; or to introduce the greatest inequality imaginable among proprietors, if the tithe had been totally cast upon their rents: but as to the method of settling accounts between master and tenant, in consequence of this tithe, both the Marechal and the reformer are totally silent.

The Marechal's *Dixme royale*, with all its defects, is a book of great value, from two considerations.

The first, that he had all possible access to come at the true state of the nation. The second, that he wrote with great impartiality, and with a sincere desire to serve the landed interest, without intending to hurt that of the King his master. From this book, we have an opportunity of judging of his notions of taxation; and from the consequences he himself points out, we discover the miserable

state of the common people in France, whose situation at this day is not much changed for the better.

The Marechal's scheme was to reduce the whole revenue of France under four heads.

The first, a general tithe of all the fruits of the earth, without distinction, which we have already explained.

The second, a tithe upon every income whatsoever, even upon the profits of labour, servants wages, employments, possessions, and trades of all denominations.

The third, was a modification of the *gabelle*, or the duty upon salt.

The fourth, which he calls the fixed revenue, was to be composed of the domain, and several other branches of taxes which he allowed to subsist, judging them, I suppose, not hurtful to the state.

I shall now shew wherein the Marechal's plan of taxation is contrary to principles, and leave the reader to make his conclusions.

First, he has declared in many places, that his intention was only to impose a tax upon the income of land, which he understands to be that part which remains after the deduction of all expences of cultivation &c. in other words, what every one understands by land-rent, and which, no doubt, is the only proper object of taxation: but in order to impose upon this part his royal dixme when at the real tenth, he takes the tenth part of the whole produce, instead of the tenth part of what goes for the rent; and, as far as I have been able to discover, he never perceives that there is the greatest difference between these two quantities.

The second article was the tithe of every income, not consisting of the fruits of the earth.

Where an income arises from a branch of property which can render it determinate, I shall form no objection to a tithe or two shillings in the pound upon it. But when he comes to tax lawyers, attorneys, physicians, &c. according to the value of their emoluments, I own I cannot find a possibility of preventing abuse in the collection, or inequality in the imposition of the tax.

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The Marechal's principal point in view was agreeable to the standing maxim in France, to make every one contribute according to his income. Very right, so far as it is possible, without implying much greater inconveniences than what can be compensated by this imaginary equality. I call it imaginary, because in the execution it will be found, that no body will really pay what they ought, except those whose income cannot be concealed. Whenever any part can be hid, there must, in my opinion, result a great inequality, and great oppression, in endeavouring to ascertain it.

A short observation will suffice to give a view of his notions with regard to merchants and trade in general. His intention was to be very indulgent to this class of inhabitants; and he feels all the advantages of trade. He proposes, however, to proscribe all notes of hand payable to bearer, as it is a method of concealing wealth and exacting interest for money; which he supposes to be contrary to scripture. Trade would be ill carried on with the Marechal's restrictions.

When he comes to the lower classes, which he supposes to comprehend one half of the people, to wit, all tradesmen, manufacturers, and day-labourers, their wives and children; he takes the example of a weaver, as a middle term, to judge of the gains of the tradesmen and manufacturers. He supposes this weaver to have a wife and family, to work 180 days only (because of the many holidays, as well as accidental avocations) at 10½ *d.* sterling a day. This makes his year's labour worth 7 *l.* 17 *s.* 5 *d.* sterling. Of this he takes 10 *s.* 10½ *d.* for the greatest tithe. Besides this, he exacts of him for his salt-tax, for four persons in his family, 12 *s.* 9 *d.* So that this man, whose whole labour is only worth 7 *l.* 17 *s.* 5 *d.* sterling, is to pay 1 *l.* 3 *s.* 7½ *d.* of cumulative taxes out of it, which is above ¼ of the whole fund of his poor subsistence: after which he adds, "This, in my opinion, is a tax high enough for a weaver, who has only his two hands to gain his bread with, and who has house rent, meat and clothes to provide for a family, who frequently can gain very little for themselves." To this I must agree.

I shall

I shall give one specimen more of what the Marechal considered as a case procured to day-labourers, in their then-situation; which relief, however, they have not hitherto obtained.

These he also supposes to work 180 days in the year, at not quite 8½ *d.* sterling. He values his year's labour at 6*l.* 10*s.* 6*d.* sterling, and here is the employment of this sum according to the plan.

He is to pay for tithe of his <i>industrie</i>	£ 0 8 8½
For his salt-tax	0 12 9
For five English quarters of rye	4 7 1
For clothes to the family, utensils, and repairs	1 1 11½
	6 10 6

I have been the more particular upon this part of the plan, because it gives us a notion of what the Marechal thought a moderate easy tax laid upon 8 000 000 of inhabitants, to wit, 2 000 000 men and 6 000 000 women and children, according to his calculation.

I come next to the tax he proposed to lay upon salt, of which mention has been made.

This tax is of the nature of an excise, and is called the *gabelle*, which we have explained already in a note; and the objections to it, as the Marechal has proposed them, are no less than three very material ones.

First, the proportion of the duty is far too great, considering the value of the commodity. The second is, that being imposed upon an article of subsistence, it operates immediately on the price of the salt, and only consequentially on the price of labour. This is no great objection, were the proportion moderate; because insensibly the price of labour would rise, were the tax generally and exactly levied in proportion to the consumption: but this was not the case; and this circumstance opens the last objection, and the greatest of all, to wit, that the tax, proportional in its nature, is rendered cumulative, by being raised at the end of the year, in order to oblige every one to consume the salt required.

Now

Now by this mode of levying the tax it loses every advantage, and becomes an addition to the tithe laid upon the industry of the consumer. If every man in England were to be rated at the end of the year, in proportion to the excise of as much beer as he may reasonably be supposed to consume, would that be an excise? certainly not. It would be a poll-tax to all intents and purposes, which no man could draw back.

I have little or nothing to object to the fourth article of the Marechal's plan. He proposed no essential change, either as to the imposition, or method of levying the taxes which composed it. The principal heads of them are,

1^{mo}, The royal domain, or the king's landed estate, together with all casualties attached to royalty, or feudal superiority; stamp-duties, and the *controle* of public acts by notaries.

2^{do}, The customs upon importation and exportation.

3^{io}, Certain taxes of the purely proportional kind; among which was one upon tobacco, and one upon liquors drank in public houses in the country. Here entire liberty is left to the consumers; and the taxes are principally calculated to affect, or, as he calls it, to punish luxury, intemperance, and vanity. With this view, he wittily proposes an imposition upon large and ridiculous wigs, at that time much in fashion, and upon several other articles of extravagance.

This is a short sketch of the Marechal's system of *royal tithe*, considered as to the principles only, upon which the several taxes were intended to be imposed. The treatise contains several admirable things; especially with regard to recapitulations of inhabitants, lands, houses, animals, &c. highly deserving the attention of the statesman, who intends to execute any plan for national improvement.

I shall now set before the reader the Marechal's calculation, as to the amount of the four articles, when at the lowest, and at the highest taxation.

2

When

When the tithe is understood to mean the 20th part of the fruits, &c.

	Livres.
I. The tithe of the lands	60 000 000
II. The tithe of all revenue and industry	15 422 500
III. The salt-tax at eighteen livres the <i>minot</i> *	23 400 000
IV. The fixed revenue	18 000 000

Total of the four articles, when at the lowest taxation 116 822 500

When the tithe is understood to mean the tenth part of the fruits, the two first articles are just double of what they are stated at above, viz.

The salt-tax at thirty livres the <i>minot</i>	150 845 000
The fixed revenue never changes, and stands always at	39 000 000
	<u>18 000 000</u>

Total of the four articles, when at the highest taxation 207 845 000

In imposing this tax upon the fruits, he allowed no exemptions, not even in favours of the princes of the blood: for this he gave an excellent reason. Tithes, said he, were the ancient patrimony of kings. The Roman emperors and kings of France enjoyed them. From those duties no noble was exempted. This appears from the ecclesiastical tithe, which, he alledged, to be nothing but the royal patrimony, alienated in favour of the church; conse-

* The *minot* is a measure of capacity equal to three Paris bushels, or the fourth part of a septier; which is about one half of an English quarter. This makes the *minot* to be about an English bushel. The Marechal proposed that this quantity, when at the lowest price, should be sold for 18 livres, or 1 *l.* 6 *s.* 1 $\frac{1}{2}$ *d.* sterling; and when at the highest, at 30 livres, 2 *l.* 3 *s.* 6 $\frac{1}{2}$ *d.* from which we may judge of the exorbitancy of the gabelle, even after all the diminution he thought proper to make upon it. The French money mentioned in the Marechal's *Dixième royale*, is here converted into 52 $\frac{1}{4}$ *d.* sterling, for the French crown of three livres: because the silver coin in France, at the time he wrote, was 30 livres 10 sols the marc (*Dutot*, *nap.* 1. art. 6.); and at present it is at 49 livres 16 sols.

quently,

quently, there is nothing derogatory in paying the tithe, although nothing be more so than paying the *taille*. So great is the difference between terms, when the ideas of a nation are connected with them!

C H A P. XII.

Miscellaneous Questions relating to Taxes.

THE subjects of credit, debts, and taxes, have been so extensively treated of in the two last books, that I hope no question I now can propose will serve for any purpose, but to suggest the solution of it, so far as it comes under the principles we have been deducing.

QUEST. I. What is the most proper method for imposing a land tax?

I answer, that according to equity and justice, all impositions whatsoever ought to fall equally and proportionally on every one, according to his superfluity; but in land-taxes this equality is not so essential as in most others. The great hurt arising from inequality in taxation proceeds from the inequality occasioned thereby in the competition between the classes of the industrious. When the same tax affects people of the same class differently, those who bear the heaviest load gain less, though their industry be equal. But in land-taxes the case is different: the tax there only diminishes an income already made, and in fact diminishes the value of the property; so that were land-taxes made perpetual deductions, the whole loss of the tax would fall at once upon the actual possessor at the time it is imposed. Every subsequent purchaser, by deducting the land-tax out of the rent, would calculate the value

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of

of the remainder only; and the consequence of the tax would be, virtually, to transfer a part of the land-property to the state.

The consequences of such a change upon property may produce a variety of new combinations. The state may then sell this portion of their property; they may with the price received pay off part of their debts; they may acquire certain districts of the country, where, being both sovereign and proprietor, they may abolish taxes, which would then in a great measure affect themselves only, and establish manufactures for foreign exportation.

Although an absolute equality in this tax is not so very requisite, still the inequality ought to be ascertained, and every income intended to be affected by the tax should be specified in one way or other. For this purpose, the best method seems to be, to make the regulation of any one year a rule for the subsequent years, until it be judged proper to make a new general valuation of every part. This is a consequence of what has been said: a fluctuating annual valuation, which is the case in France, produces numberless inconveniences; and upon the whole, they are far greater than those which it is intended to avoid.

I agree that the same land may be worth more one year than another; but it is impossible by a fluctuating valuation to ascertain that difference over a whole country, to the satisfaction of every one; and although, by fixing it at one rate upon every possession, inequalities must take place, yet fixing it from rising in proportion to improvement, will prove an encouragement to industry, which will greatly overbalance such an inequality. Every one then will be in the way of acquiring an addition to his income, free of land-tax; and if this be thought too great an encouragement to improvement, let the regulation be only fixed for a determinate time; suppose a century. This is no more than giving every one a lease as it were of their land-tax for a hundred years; and experience shews, that without granting long leases it is impossible that lands should ever be improved.

Were

Were innovations practicable, according as right reason and plain principles direct, it is very certain that a land-tax might be imposed in a better way than I have here suggested. But to what purpose would it be to lay down schemes beyond the power of execution, when the principles already deduced so plainly point them out?

QUEST. 2. Which is the best method of levying taxes; by farm, or by the management of commissioners appointed by the state?

The best way to answer this question, is to shew the inconveniences and advantages of both. The arguments against farming are, 1^{mo}, The great fortunes made by the farmers occasion jealousy, and expose to the eyes of the people a set of men who are become rich at their expence; hence envy arises, and hatred against government.

2^{do}, In years of scarcity, war, or public calamity, deductions of the rent, or annual sums paid by the farmers, are demanded, and can hardly be refused, and the farmers always overvalue their loss; here therefore is an unequal bargain: the farmer *must* gain, the state *may* lose.

3^{tio}, The people pay less willingly to the farmers than to the King; magistrates in general support the raising of duties with more unwillingness, and severities upon delinquents are less easily born.

These inconveniences are avoided in the management. There men of the best abilities may be entrusted with that employment; experience shews that many branches of taxation have been carried to great perfection under management, and men of probity and capacity will act with as great zeal for the public as for themselves.

The principal arguments for farming are; the advantage of having a fixed and certain revenue to depend on at regular terms; that the farmers act with more zeal for themselves, and with greater impartiality in employing under-officers, as well as more frugality, and therefore can afford to give a higher rent, with con-

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siderable

siderable profit to themselves, than can be made effectual under the best management: besides, every one judges himself capable to administer the King's affairs, because he finds profit in it; but people think twice before they undertake to be farmers of a revenue they do not well understand.

In the administration of taxes, it ought to be the object of a statesman's attention and care to profit of every advantage attending the different modes of levying them. It is not sufficient to inquire into the general consequences of the two modes of administration, the management and the farming of taxes: those of the cumulative kind especially, affecting the lower classes, would be very improper objects of a farm; because it would be in a manner delivering over the greater part of a people to the rapacity of tax-gatherers.

On the other hand, the farming of proportional taxes is not liable to so many inconveniences. The farmers there are principally employed in watching over those who *advance* the taxes, and who are themselves, as has been said, in reality the tax-gatherers over the people.

When therefore circumstances permit, without inconvenience, the fabrication of exciseable goods to be incorporated with the farm, this of all others is the best method of levying taxes. Examples of this are familiar almost every where. The farmers of the salt and of the tobacco in France are in this situation. In retailing those commodities, they collect the price they pay for the composition; that is, for the farm of them. It is not the same of the aids in France. There the farmer superintends the immediate tax-gatherer, to wit, the retailer of spirituous liquors, or of other things subject to the tax. The circumscribing the number of places where exciseable commodities are fabricated, and the shutting them up within inclosures, would greatly facilitate the levying of all excises, whether by farm or by management.

In order therefore to decide whether the preference ought to be given to the management or to the farm, circumstances are to be weighed.

weighed. When a tax is new, or has been ill managed, or has fallen, without any visible cause, below what it formerly produced, or ought to have done; when the amount is unknown, by being of an extensive collection: in such cases, short farms, and even several subdivisions of them in a country, may be of use. But when a tax is well understood, and a good plan of levying it laid down, it may be well raised, and perhaps better improved, under a management; as also, when it is of a nature to be easily understood, and when the very exercise of levying it points out all the frauds possible to be committed.

Davenant, who well understood this question, in his 4th Discourse upon revenues, recommends farms which are not *absolute*, but *limited*, as the best. By limited, he understands, that the farm should first be given for a fixed sum; that the farmers should carry on an open administration, liable to the government's inspection in every particular; that in case the profits of the farm should exceed the rent stipulated, a certain sum should be ascertained for the charge of management, and the surplus should belong to the King, allowing a certain poundage to the farmers to animate their diligence*.

He very justly observes, that a tax, when farmed, in order to be improved, will naturally draw, at first, a less rent than the sum liquidated as a free profit by the former management; because the farmers will be willing to secure to themselves a good profit; and next, because they will be obliged to make a considerable advance, as a security for fulfilling their engagement, which must also be considered as a deduction out of the produce of the tax.

All the advantage therefore in farming must be looked for after the expiration of the lease; for which reason, the shorter the term is, the better: three years, it seems, was the common term in England, in Davenant's time.

All new imposed taxes ought to be raised with the greatest lenity, not to revolt the minds of the people: the first year's defi-

* This plan of Davenant's was carried into execution in France by Monsieur Silhouette, in 1759.

ciency is well bestowed, if government can but discover the different ways which may be fallen upon to defraud the tax, and form a good judgment how far the amount of it may go in time, when the management is brought to perfection. As long therefore as a management continues to improve a tax newly laid on, I should not think of farming it: but when, either from the extent of the imposition, or the nature of it, frauds begin to multiply, and management begins to become more and more difficult, then is the time immediately to put it into farm, either for different districts of a country, or in sub-farms. If this be delayed, frauds will daily increase; and the difficulty of preventing them will carry government to the expedient of imposing penalties, severe in proportion to the frequency of the crime. Commissioners will constantly put these in execution with reluctance; the management will become slack; or if penalties are rigorously exacted, they will become a handle for oppression; and even though justice be done, and none but delinquents be punished, yet still the people will be ill affected with the punishment of an action which in itself they are too apt not to consider as a crime: whereas in farming, frauds will be prevented by vigilance more than by fear of punishment; and this is by far the better expedient. Thus instead of feuds daily increasing, they will daily diminish, and the tax will improve yearly.

Here Davenant well observes, that *nothing but divine wisdom can at first create perfect order; but in all human affairs it must be the work of time, and the result of much labour and application.*

One good reason for managing a tax before it be farmed, is to learn the nature of it, and of the frauds it is liable to. When these are not rightly known, the farmer can more easily surprize the government, and obtain from it new regulations, under the pretext of preventing frauds; which regulations they may abuse, and turn to other purposes than those intended.

Davenant has a very good remark, p. 154. That a new tax, imposed upon consumption, and ill levied, equally raises the price upon

upon the consumers; and the whole profit centers in the hands of those who retail. That when an old excise becomes ill levied, the profit is divided between the inferior officers (who collect it) and the retailers. The reason is, that a branch which is well understood, is not so liable to frauds as to collusion. This shews that in every case, such a duty should never be imposed without exerting every endeavour to have it rightly collected. The state should also keep a watchful eye upon the augmentations made in the price of excisable commodities, in order to keep the augmentation justly proportioned to the duty. If this be neglected, the overcharge hurts consumption, diminishes the produce of the tax, and enriches the retailers only. Here competition is necessary to be introduced: the public may even erect a manufacture which may regulate prices, and so soon as they are properly ascertained, the selling price may be fixed by an assize.

An ill levied imposition is attended with this additional inconvenience, that it establishes inequality among the industrious of the same class; consequently, an unequal competition. This happens when particular officers are diligent and exact in doing their duty, while others are remiss. The profits of retailers are *high* in proportion to the *negligence* of the officers of the revenue; and their extraordinary profits, enable them to undersell and to ruin those who are exactly looked after: the consequence of this is, to diminish the number of retailers; to introduce hurtful monopolies; and in general, to hurt the whole branch of the manufacture. All remissness, therefore, in collecting an excise, draws along with it a prejudice to the Prince and his people: and the relative profit, which balances this loss, falls into the pockets of the fraudulent manufacturer, and the corrupt and negligent collector. This is not all: the deficiency must be made up in another way; for taxes must produce the sums wanted. Thus the remissness in collection occasions a new additional burden to be laid on the people.

QUEST. 3. What is meant by *income*, when applied to individuals, and to a state, and what is the nature of the *expence* which must diminish it, when it is considered as the object of taxation?

The great intricacy of this question proceeds from hence, that what is really an expence to one is the income of the other: so that without applying our reasoning to every particular fact, no general explanation can be rendered intelligible. My reason for proposing it in this place, is, that in commenting upon some passages of Davenant, in his discourses upon the revenues of England, I may have an opportunity of illustrating some things which have been already examined.

Davenant was an admirable writer; he had a remarkable genius for political theory, and his sentiments upon many things are very generally adopted. My intention here is not to refute opinions, but to avail myself of his combinations, in order to explain my own ideas.

In his first discourse upon revenues, we find the following passage.

“ The number of the people leads us to know what the yearly *income* may be from land, and what from mines, houses, and homesteads, rivers, lakes, meers, ponds, and what from trade, labour, industry, arts and sciences: for where a nation contains so many acres of arable land, so many of pasture and meadow, such a quantity of wood and coppices, forests, parks and commons, heaths, moors, mountains, roads, ways, and barren and waste land; and where the different value of this is computed, by proper mediums, it is rational to conclude, that such a part of the people's expence is maintained from land, &c. and such a part from mines, houses, &c. and that such a part is maintained from trade, labour, &c. and the poor exceeding so much the rich in numbers, the common people are the proper medium by which we may judge of this expence.

“ There is a certain sum requisite to every one for food, raiment, and other necessaries; as for example, between 7 and 8*l. per annum*; but some expending less, and some more, it may not be improper to compute, that the mass of mankind, in England, expend, one with another, near 8*l. per annum*: from whence it

“ may

“ may be concluded, that an *annual income of so many millions* is needful for the nourishment of such and such a number of people.”

The reasoning here takes a wrong turn. It is of no consequence to compute the value of things consumed without alienation. It is of no use to know that the value of the physical-necessary of an Englishman is 8*l.* a year; because if this sum is supposed to be an exact quantity of income, not one farthing of tax can be imposed upon it. So that imposing, for example, 5 *per cent.* upon this article would only be raising the physical-necessary to 8*l.* 8*s.* which 8*s.* must be paid, not by the physical-necessarian, but by some body having superfluity who employs him: and if there was not superfluity enough in England to answer to 8*s.* a head, such a tax could not be levied.

He afterwards supposes that the income of this class may amount to about twenty millions a year, which at 8*l.* each, answers to two millions and a half of people. He states the income of lands at fourteen millions, and the income of trade at ten millions, in all at forty four millions a year: and hence he concludes, that taxes ought to be imposed in some proportion to this total.

Now if he supposes the first article of twenty millions, arising from the income of those who are employed in arts and manufactures, according to the former calculation of 8*l.* a head, to be as ready a fund for taxation as the land-rents, we must examine, by the principles we have deduced, whether there be any ground for such a supposition.

Let me suppose one of this great class to work a whole day for his victuals only. Here is an alienation of work for food. It is impossible, however, to raise a tax in money upon this alienation; because it may easily be supposed that neither party has a farthing. The only method therefore, in such a case, to impose a tax, would be, either to oblige the workman to set apart a portion of his day's work for one who would pay the public for the value of it, or to oblige the person who gives him his food, to pay the public for the privilege of employing him in his service. The one and the

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other are examples of proportional taxes. But this method of taxation is absolutely unknown. In this example there is an alienation, which, I have said, constantly implies a superfluity of one kind or other. The labour of the person working is, here, superfluous to himself; therefore a part of it may be applied towards the public. But the bread he receives is in no part superfluous, and therefore cannot be laid under taxation *as to him*. But then the bread given for the labour is superfluous to the person who gives it; and as this implies that he has a superfluity of bread, the state may demand a share of that superfluity.

By this exposition of the matter it appears, that in order to raise a tax, in whatever way it be done, some kind of superfluity must be supposed. It also points out how it should be laid on: for if by mistaking the proper object, a part of the *bread* should be taken from the *workman*, instead of being taken from the *man who employs him*, the tax would affect the physical-necessary of the labourer, instead of affecting the superfluity of the employer.

Let us next suppose a workman able to do no more than what is requisite to dig the ground for roots to eat, instead of digging it to procure bread from a man who has bread to spare; still there will be no alienation; consequently, no possibility of establishing a tax: for if you either take a part of his labour, or of his food, you deprive him equally of his physical-necessary. Yet the work of this man, and his food, may be valued at so much money; and thus may enter, in one sense, into Davenant's general article of income or expence; but it does not follow that any tax can be raised upon such an income.

To estimate, therefore, the total value, in any nation, of what is the object of taxation, we must go another way to work. The first article must be the *annual income* of all *funds*. By funds, here, I understand the capital wealth already made, in opposition to the produce of industry, which may be considered as the materials of which such funds are composed. The fund therefore is the accumulation of savings, which, not having been spent by the industrious, form
a capital

a capital of a nature to produce an income, either from land, or from any other valuable thing. Thus land-rents, annuities, interest of money, emoluments of offices, salaries, even wages of servants, in short, every fixed income, I range in this first article, which I call *annual income*, produced from a capital already formed, either real or supposed.

This may be laid under taxation by a pound-rate, or otherwise, and forms that kind of tax which I call cumulative and arbitrary; because a man who has any sort of visible revenue, comes under this general rate, let him have ever so many necessary deductions out of it, ever so many debts and incumbrances. From such circumstances, cumulative taxes frequently turn out extremely burdensome.

The second object of taxation is upon alienations made for money. Whenever we come to dispose of money in the purchase of any thing, the state has an opportunity of exacting a part of it as a tax; but while it remains hid, it can neither be come at, or laid under contribution, without extortion or violence.

All branches of expence may be laid under taxation by excises, which I call *proportional taxes*; because a man is never subjected to them, but in proportion to his expence; and his expence ought naturally to proceed from his income.

As for trade, I do not clearly see how the profits of it can be regularly taxed. In France, indeed, they are taxed under the first head, and are considered as an income. Such an imposition is not well judged; because *there* the materials for making the fund are taxed as if they were the income of a fund already made. It is only the savings out of the profits upon trade, placed so as to produce a permanent revenue, which properly can be considered as a fund: the *income* therefore of these savings, and not the savings themselves, should come under that branch of taxation.

Customs are improperly called taxes upon trade. If ill imposed they stop trade, or render it less profitable, by diminishing the demand for the goods so taxed; but they take nothing from the profits already made.

In a trading nation, the great branches of commerce produce a certain determinate profit, subject, I allow, to augmentations and diminutions, from accidents and circumstances impossible to be foreseen: and the customs imposed upon exportation and importation differ from excises more in the method of levying them than in any thing else.

Davenant, in my opinion, would have given a better idea of the sum which taxes might have been supposed capable of producing in England, had he examined the amount of all the branches of revenue, and of all the species of sale, than in the manner he has done. These two points known, it would be expedient next to inquire, in what manner the several articles could be made subject to either cumulative, or proportional taxes.

I must now take notice of another passage of Davenant, where he explains himself upon the question before us: it is in his fifth discourse upon revenues, where he says,

“ By annual income, we mean the whole that arises in any country from land and its product, from foreign trade, and domestic business, as arts, manufactures, &c. and by annual expence we understand what is of necessity consumed to cloath and feed the people, or what is necessary for their defence in time of war, or for their ornament in time of peace: and where the annual income exceeds the expence there is superlucration arising, which may be called wealth or national stock.

“ The revenue of a government is part of this annual income, as likewise a part of its expence, and where it bears too large a proportion with the whole, as in France, the common people must be miserable and burdened with heavy taxes.

I must comment a little upon this passage.

I have no objection to this exposition of the matter; the ideas are intelligible and clear: but I object against the application of his doctrine to taxes; because it would lead to error. Here are my reasons:

Imo, Income is called the whole of the earth's productions: this I may admit to be just, except when we consider income as an ob-

ject of taxation. But if we retain the same definition to express the income of one, for example, who labours the soil for his own subsistence, as well as of another who labours it as a trade, the difference in paying their taxes out of it will be very great. He who draws nothing from the ground but his physical-necessary, can be laid under no taxation; because he has no superfluity. And if he be obliged either to give a part of his crop in tax, or to sell any part of it for money to be paid to the public, this diminishes his physical-necessary, and forces him to starve: whereas the other who exercises labour as a trade, may be obliged to pay a part of his surplus by way of tax or rent; and still his physical-necessary may remain untouched.

It is for this reason, that in treating of these matters, I am always at the greatest pains to point out, that nothing can be the object of taxation, except what is over and above the physical-necessary of every one.

In all countries where a *land-tax*, *steuer*, *taille*, or by whatever name it goes, is established, care must be taken to prevent the husbandmen from confining their labour to such a small spot of ground as is barely sufficient to produce their own physical-necessary, unless when they have a trade to assist them in paying what the public demands of them.

From this circumstance, and this only, it happens, that the land-tax in England is so little burdensome, comparatively to what it is in many nations of Europe. Lands in England are let in large portions: no body will let a farm so small as to be proportioned to the supplying of the mere physical wants of the farmer. But in other countries, where the œconomy is different; where inheritances in land are constantly divided, as moveables, among all the children; the lots become so small, that the proprietor can draw no more from them than his own subsistence; and then when a land-tax is imposed, this poor little portion being valued in proportion to what it can produce, as well as the greatest estate in land, the husbandman is starved, although the tax demanded of him be laid on in the

the exact proportion to the produce of his land, while he that has a surplus is quite easy.

I would therefore recommend, in countries where this minute subdivision of lands has taken place, that for the future none under a certain extent or value should be suffered to be divided among the children, but ordered to be sold, and the price divided among them; and that the same regulation should be observed upon the death of such proprietors whose lands are not sufficient to produce three times the physical-necessary of the labourers. This would engage a people to exercise agriculture as a trade, and to give over that trifling husbandry which produces no surplus, and which involves so many poor people in the oppression of land-taxes. This plan can never be recommended as a plan to be executed all at once: it must be done by degrees, and in proportion to the progress of industry. The principle is so evident, that I never found any one who did not immediately agree to the justness of my observation; although in imposing land-taxes I have nowhere found it attended to*.

Here then is the use of theory; it directs us in practice to avoid difficulties, which might otherwise be judged unsurmountable.

2^{do}, I farther observe, that it is a more hurtful error still to mistake the produce of industry for the taxable income arising from it, than to mistake the gross produce of land for the rent: because the profits upon industry bear a smaller proportion to its produce, than the rents of lands do to their full fruits.

The best method of raising money upon the lower classes of the industrious, is rightly to lay their consumption under proportional taxes, which they may easily draw back; because they will raise the price of their work proportionally.

From this we may conclude, contrary to the common opinion, that the test of well imposed taxes is to raise prices in proportion. When they are rightly imposed, every one who sells a commodity

* Some small attention is paid to the poorer sort of landholders in England: for, by the annual act for a land-tax, no poor person shall be liable to the pound-rate, whose lands, &c. are not worth 20*s.* *p. r. annu. n.* value.

which

which has paid a tax, will draw it back, whether he be industrious or not. If he consumes it, he cannot draw it back, but by raising the price of his work; which again he cannot do, unless the tax be made so general as to affect all his competitors; and unless the consumption he has made be unavoidable to every one of them.

When we reflect upon the large quantities of exciseable goods which are consumed as superfluities, we must conclude that the rise of prices, daily complained of, proceeds more from our manners than from the taxes we pay.

3^{io}, The expence of a people is not merely what is sufficient to subsist them; but what they consume, either in fruits, or manufactures. Had indeed Davenant computed the value of this necessary quantity, and deducted it from the income, according to his acceptation of income, the remainder would have been a tolerable good representation of what I mean by income, or taxable fund; because whatever a people consume beyond the necessary, I consider as a superfluity which may be laid under taxation.

4^{to}, I must also differ from him in his idea concerning superlucration, wealth, or national stock.

According to him, this is the quantity of income remaining after the following deductions: 1^{mo}, What is necessary to clothe and feed the people. 2^{do}, What is necessary for their defence in time of war, and ornament in time of peace. But according to my notions, I must also deduct all that is consumed in superfluities; for what is consumed, whether necessarily or superfluously, never can make an article of superlucration, wealth, or national stock.

The superlucration then of a nation consists in the augmentations made upon her stock of every kind, capable of producing a proportional income: it is the converting into something durable the well employed time of the inhabitants. In this sense the new pavement of London, the roads, buildings, ships, &c. in England, are all articles of superlucration, as well as the improvement of the lands, and consolidation of the balance of her trade, which has created that part of the public funds belonging to natives.

QUEST.

QUEST. 4. Is it possible to convert a land-tax into one of the proportional kind?

This is a curious speculation; and as it is a short exercise upon several principles of this science, it comes in properly at the conclusion of our work.

To make a land-tax proportional, the proprietors of land should be enabled to draw back the burden, in the sale of the earth's productions. This they cannot do, as matters stand. The farmers who pay no land-tax undersell them; because they have no tax to draw back.

Since the tax, therefore, cannot be drawn back directly, let us apply our principles to discover a method how this might be done indirectly.

Let nothing but lands be subject to this imposition.

Let every part of them be valued, and recorded in a general register.

Let bread, butchers-meat, and subsistence of all kinds, be laid under an excise, *in all markets*; and nowhere else, at a rate sufficient to raise the tax intended to be laid upon the lands; and let the amount of this tax be drawn back by the landlords, in proportion to the valuation by which they have paid the land-tax.

That this is a reasonable imposition, appears from the whole plan of this work. We have seen, in the first book, how the great body of the people is divided into labourers and free hands; that the free hands are the inhabitants of towns, who go to market for subsistence, and consume what corresponds to the land-rents; consequently the landlords, who at present pay a cumulative tax, which they cannot draw back in any shape, are justly intitled to the amount of this proportional tax, laid upon the great articles which produce their land-rents, and which are consumed by the inhabitants not employed in agriculture.

Every one who has writ concerning taxes has endeavoured to contract the object of them as much as possible: more, I imagine, with a view to ease the public than the people. I have followed
another

another course. I have been for multiplying the objects of taxation as much as possible, and for making them more in proportion to expence than to property or income. But that I may conform myself in some measure to the ideas of those who have examined the same subject, I shall propose a tax, which would fill up the place of every other; and could it be levied, would be the best perhaps ever thought of.

It is a tax, at so much *per cent.* upon the sale of every commodity.

CHAP. XIII.

Recapitulation of the Fourth Book.

PART I. *Of the Interest of Money.*

INTROD. I INTRODUCE the subject of credit and debts, by giving a general idea of its extent. It comprehends the method of establishing a solid security for money borrowed; of extending the object of such security in proportion to circumstances; of supporting the credit of the borrowers, when over-stretched; and of preventing, as far as possible, the fatal consequences of a bankruptcy, when it can be no longer supported.

I shew how all mysteries relating to credit proceed from our ignorance only of its true nature; which is confidence established upon a visible and palpable fund of payment. I observe how delicate a thing credit is, and how gently it must be dealt with; how incompatible the forms of common law are with the discussion of questions which arise between merchants; how necessary it is to form a jurisprudence peculiar to trade, and to support it by manners more than by authority; and when credit is once set upon its

true basis, how all aerial schemes, bubbles, and public bankruptcies will be avoided.

CHAP. I. Here I shew how impossible it is to establish credit by authority; how inseparably it is connected with liberty and independence; and still how compatible it may be with that supreme power which is vested in every government.

CHAP. II. The object of credit is money lent; the basis of loan is the payment of interest. If money be wanting, credit will die; consequently, there must be a method found for augmenting and diminishing the quantity of money in proportion to the demand for it. It is augmented, by converting land into paper-money; it is diminished, by relieving the land of the engagement upon it, and extinguishing the paper-money. This is no more than a contrivance for turning into a *circulating value*, which is the principal characteristic of *money*, the obligations of private men, which in all countries are considered to be of an equal value with any coin.

I here explain what is meant by money *stagnated*, and by money *realized*. Money, while it is employed in circulation, can carry no interest; the moment it lies idle to one man, were it but for a day, it may be worth interest to another, who willingly pays for the use of it, when he has occasion either to buy what he wants, or to pay what he owes. If no body be found who wants it, then it is said to *stagnate* in the hands of the proprietors. This denotes that circulation is full. He therefore desires to *realize* it; that is, to purchase with it some kind of income. For this purpose, if it be coin, he sends it to some place where coin is wanted. If it be paper, he demands of the debtor in the paper either to give him an interest for it, or to convert it into coin, which is the money of the world. Both are called realizing; and in proportion as money is realized, circulation diminishes.

Hence I conclude, that as the use of circulating money is to carry on alienation, so the use of stagnated money is to produce an interest; consequently, a perpetual interest is better than money, when it is not wanted for the use of circulation. If therefore, by

the policy of a country, the capital of every perpetual interest can be immediately converted into money for the use of circulation, the inconvenience of capitals not demandable is removed; because although you cannot make the debtor pay, you can sell what he owes you to another, who will; and this equally suits your convenience.

CHAP. III. The simplicity of manners among the primitive christians, circumscribing very much the uses for money in circulation, a great quantity of the coin was consequently locked up. Paper money *then* was superfluous; because even coin itself so far exceeded all the uses of their circulation, that it was considered in the light of jewels and plate with us.

Taking interest for it, when lent, appeared to them as unreasonable, as if a lady, in these times, were to ask a price for lending her jewels to a friend.

However, as money was necessary on many occasions to those who had none locked up, the Jews, who have always despised land-property, made a trade of lending; and this drew an odium upon the practice. I can ascribe it to no other cause. Our manners are totally changed; and Christians lend money at interest as well as Jews. Neither trade, industry, or credit, can subsist without it; and as money cannot be lent, without allowing interest to be taken, interest is become the basis of the whole system of credit, and comes to be examined in the following chapters.

CHAP. IV. Before industry was established, the calls for money to borrow were few, and chiefly confined to Princes in time of war, and prodigal proprietors of land in time of peace. Their demands were urgent, and the interest they paid was in proportion. The lenders possessed but a small part of the coin of the country; because the bulk of the people locked up all they could. Those who hoarded, would not lend; and this greatly diminished the fund of borrowing: besides, Princes and prodigals had no sooner spent the money borrowed, than it fell again into the hands of those who

hoarded; and the lenders found, no doubt, great difficulties in procuring fresh supplies.

When industry and trade brought money out of its repositories, when the necessity of permitting interest appeared evident to the church, the coin then began to make its appearance, and was ready to be lent. This opened a market for money. The price of money is the rate of interest. At this market, the borrowers and lenders appear in competition among themselves, according to circumstances. If more money is demanded to be borrowed than is offered to be lent, the competition takes place among the borrowers, and interest rises. If more is offered to be lent than is demanded to be borrowed, interest falls. Those who borrow money may be divided into two classes, viz. those who intend to spend it, and those who intend to trade with it.

When more money is to be lent than the first class demands, the rate of interest will be regulated by what merchants *can* give for it: when there is less, it will rise to what the prodigals *will* give for it.

But this first class must have good credit, or their borrowing will be cut off. When therefore a statesman finds, that the borrowing of such people hurts the commercial interest of his country, by keeping interest high, he should weaken their credit, by tying up their lands by entails. When their borrowing becomes necessary for the encouragement of industry, and for bringing all the money there is into circulation, then their credit should be enlarged, by promoting an expeditious sale of every branch of their property.

CHAP. V. Thus, without the aid of law, the interest of money is regulated by demand. But a state must not totally overlook the interest of the class who spend more than their incomes. It would be inhuman to throw them into the jaws of usurers. Statutes therefore prevent interest from rising above a certain rate. This preserves them, and renders the dissipation of their fortunes more gradual.

But although a statesman has it in his power to guard his people against the oppression of usury, by preventing the rate of money from rising above the ordinary standard of demand, he cannot equally force it down below this standard, even although the interests of trade should require it: because if the monied men can lend their capitals abroad, at a higher interest than they can procure for them at home, they will distress the landed interest, by demanding what they owe, and all the money will be sent abroad, as was the case in Scotland in 1762.

This was not the case a hundred years ago: No money then could be lent abroad by Englishmen; because those who would give high interest had no credit. Thus government could bring it down at will; monied men were forced to consent; and the price of land rose in proportion as interest fell.

As it is the extravagance of men of property which raises the rate of money above what is consistent with the interest of trade, the expedients to bring it down; are: 1. To circumscribe borrowing by the prodigal: 2. To suspend borrowing by the state: and 3. To throw as much public money as possible into the market, by paying off debts. When a statesman has by such measures brought the rate of money considerably below the legal price, he may, by a new statute, prevent its rising again so high as formerly; but still he must keep in his eye the rate of money, and state of credit in rival nations, in order to avoid the inconveniences already mentioned.

CHAP. VI. If Great Britain were to regulate the rate of money below what the fluctuations of demand are commonly found to carry it, then in time of war, as soon as demand, which can be subject to no statute, got up to the high standard, the whole landed interest would be torn to pieces by their creditors: for the debtors could not borrow from one to pay another, because no man would give them credit. This would put an end to all their expence; the funds which supply it at present (the land-rents) would be carried off by creditors; and all the industrious who serve such proprietors of land would suffer considerably for want of employment. The conclusion which

the generality of people would draw from this phenomenon would be, that high interest, instead of being hurtful, is advantageous to trade.

CHAP. VII. Hence we may conclude, that low interest is principally advantageous for carrying on foreign commerce, and that the best method to keep it low, is to keep circulation full, by facilitating the melting down of property.

This expedient has been contrived by merchants in the establishment of banks upon mortgage; and there is a possibility that landed men, some centuries hence, may find out that they may imitate the example of traders, and contrive the means of borrowing cheaper than they can do at present.

Were a particular nation to carry such expedients into execution with success, it would have the effect of bringing down the rate of money every where. This would sink the general average of the whole, but never would prevent the operation of those principles by which it had been brought down; and the most intelligent nations would still have the same advantages as before, of keeping their interest low relatively to their neighbours, which is the great *de-fideratum* for the support of public credit, as well as of foreign trade.

CHAP. VIII. But although it is of very great advantage to trade to have interest low, we cannot judge of the prosperity of trade from this circumstance alone.

That nation gains the most upon her trade who draws the greatest balance from the rest of the world. Now the balance cannot be judged of by the rate of interest; because this depends more upon manners and policy than upon the state of industry. Industry must be supported by superior dexterity, natural advantages, and promptitude of payments, as well as by low interest. Prompt payment alone, is of more consequence to the industrious populace, than a small difference upon the rate of interest. That encourages the whole class of manufacturers. Low interest is principally an advantage to the merchants who are obliged to employ credit for collecting their work; and merchants themselves who trade upon credit,
often

often gain more by quick returns than what will compensate a considerable difference in the rate of interest. Low interest may more properly be called the barometer of public credit than of foreign commerce.

CHAP. IX. From what has been said, I conclude, that the rate of interest does not sink as wealth increases; because it is influenced by many circumstances, which do not depend upon opulence. It depends upon the spirit and manners of a people, and will fluctuate with them.

PART II. Of Banks.

CHAP. I. HAVING deduced the principles which regulate the rate of interest, I proceed to investigate those which influence domestic circulation; and as banks are the great engine by which circulation is carried on, in tracing the nature of banks we shall fully understand its policy and principles.

Banks either circulate notes, or transfer credit written in their books: the first are called banks of circulation; the latter banks of deposit.

All banks are founded on credit, and according to the nature of their institution, I may divide the credit they are built on into three kinds, viz. private, mercantile, and public.

Private credit is when the ground of confidence is real property, pledged for the security of the loan.

Mercantile credit is when the cause of confidence is in the trading stock, abilities, integrity, and good fortune of the person who obtains it.

Public credit every one understands. It is when the ground of confidence is a fund secured by public faith, in favour of the creditors,

ditors, for the interest and capital due, which last however is never exigible from the state.

Private credit is the most solid of the three; mercantile credit is the most precarious; and public credit depends entirely upon the maxims of every government with regard to public faith.

It is the object of confidence, not the quality of the person obtaining credit, which determines the nature of the credit. A merchant may grant bond on the credit of his lands; a landed man's bill, as member of a mercantile company, may only affect his stock in trade, and a Prince may pledge a province for a sum of money.

The debts of a state, and the bills of merchants, are more easily transferred than private securities.

Public and mercantile credit stand upon a more precarious bottom than private security. A suspicion of insolvency will shake the two former; real insolvency only will destroy the latter.

These are some of the peculiarities which characterize the differences between the three kinds of credit. The justness of the distinctions I have made appear from them, and from other circumstances mentioned in this chapter; and the utility of such distinctions will appear from their application as we proceed.

CHAP. II. To establish private credit, on the most solid and extensive bottom, the effects of debtors should be rendered of a ready conversion into money; the sale of lands should be rendered easy and expeditious; no entails or cloggs by mortgage and the like, should be allowed; debts upon possessions ought to be registred, and those due to banks (the great public debtors) should always be considered in a most favourable light.

CHAP. III. Banks of circulation upon private credit, are of great use in the infancy of industry. In countries where it is only taking root, the greatest obstruction it meets with is a scarcity of money. When money is scarce, payments are ill made; and when the uses for money increase, if money be not made to augment in proportion, alienation will cease to go on, and payments will daily become more precarious. This is so evident that I shall not insist upon it.

Now

Now as every individual in a state does, less or more, support industry by consuming its produce, money must be provided for every one in proportion to the value of his property. This opens at once the principle of banks upon private credit.

He who has money will, every where, willingly lend to every one who can give good security for it; and the obligation granted by the borrower is considered by the lender as better to him than the money he lends. Before the establishment of banks, such loans were made in coin; but as people discovered that a good obligation was as good as coin, they discovered also, that when obligations could be made to circulate, they might supply its place.

For this purpose, banks found out an expedient of dividing obligations secured upon property into small parts of the capital sum; and by delivering them back to the borrower, with an obligation to pay them in coin to the bearer on demand, they constituted themselves debtors to the public for every note. The consequence of this was, that the coin of the country became less useful in circulation; and as the banks demanded it, and even gave premiums for obtaining it, it came into their hands, and served the purpose of changing notes; that is, of subdividing the sums mentioned in them, into the lowest denominations of the money of the country.

There is not a nation in Europe so ignorant as not to feel the use of this policy; but there are few who have discovered how to establish the confidence of the public in this general debtor, the bank. The reason is, that people imagine a bank should at all times be able to turn all their paper into coin. Were this possible to be done, where would be the use of banks? How could they multiply money?

From this short exposition, we may understand the difference between banks upon private, mercantile, and public credit. The first lend upon the security of possessions; the second, upon bills of exchange, which is called discounting; the third, upon the security of the public funds.

CHAP. IV. A scarcity of money only being found to stop the progress of industry, and thereby to circumscribe the gains of merchants who supply consumption; and they perceiving that men of property become bad customers, more from the impossibility of making payments than for want of an inclination to consume, joined together, and formed a considerable stock which they exposed to the eyes of the public. This gave them credit, and every one who had money to lend was fond of placing it in their hands. Other people who wanted to borrow, applied to them for money. Their answer was, we have no coin; but if you want money for any purpose, we can assist you in credit, if you will give us security upon your estate. Here is, said they, a note of ours, which any body will take from you as payment for what you want. This was the same thing to the man who wanted money for a particular use, as if they had given him coin; and as such demands became frequent, the notes were printed, and infensibly banking was established.

States perceiving the abuse which might follow, were every one allowed to issue paper in this manner, judged it proper to erect companies, who lent them considerable sums as a security for their faith to the public; and the superior credit of such companies drew the confidence of the public, and circumscribed the dealings of individuals. Thus the trade of Lombards, who had formerly supported circulation by their bills of exchange payable to order, received a farther extension by the establishment of banks, who, by issuing notes payable to bearer, rendred them, in all commercial countries, every bit as useful as any coin.

Banks once established, regulations became necessary; and of these the first and fundamental one, was, to issue no notes but upon good security. If it be asked, what security should be taken? The answer is, the best those who want credit can give. In a country where trade and industry are little known, but where a taste for refinement is taking place, demand must be encouraged, in order to augment the supply. And as this demand for consumption should,

should, naturally, come from men of landed property; the bank, therefore, should first resolve to issue notes upon the security of that kind of property.

When industry becomes more extended, and when trade becomes more secure, from the solidity of mercantile funds, banks may then begin to discount bills of exchange, and as this branch of credit enlarges, the bank will by degrees participate of the nature of those secured upon mercantile credit.

When public credit, again, is well established, they will lend upon government securities; pledged in their hands, and thus become founded upon public credit.

According therefore to the principal object of their trade, they are said to stand upon private, mercantile, or public credit.

When a proprietor of lands gives his bond to a bank, it should be understood, that as long as he regularly pays the interest of the money borrowed, the bank is not to demand the capital.

For this bond they give notes, which are considered as ready money, and therefore carry no interest. So the profit of the bank is to receive interest for what they lend, and to pay none for what they owe.

What they owe is the paper they issue. They owe this to the public; and the security which the public has, is the security which the bank received from the person who borrowed from them.

Hence the solidity of banks upon mortgage. Their notes become money, and this money is secured upon the whole stock of the bank; and the whole property engaged to them.

But as the stock of the bank is of a determinate value, and as the notes they issue may very far exceed it, the credit of a bank will be precarious, unless the value of the securities upon which they lend, be equal to all the notes in circulation. It will also be precarious in proportion as the securities themselves are so. Hence the interest the public has to take care that banks give credit upon nothing but the best security.

CHAP. V. A bank, therefore, which lays down a rule to lend upon the mortgage of solid property only, would destroy confidence,

if it should launch out in giving credit to those who have no solid property to pledge.

CHAP. VI. The use of all banks is to support domestic circulation: this is two-fold; that carried on by consumers, and that carried on by traders and manufacturers, who supply consumption. The circulation carried on among the first is in proportion to their income, and their credit should be in proportion to the funds which produce it. The circulation carried on by the last is in proportion to the demand for their industry.

If a bank be established on the credit of solid funds, it is very plain that they cannot support the circulation of manufacturers and dealers upon the same terms, or in the same way they do that of proprietors. They may indeed discount bills; but they cannot give a permanent credit upon a security which is not founded upon property. This opens a new combination.

Trade and industry are dispersed through many hands, and if the stock of those who carry them on be compared with what is necessary for that purpose, it will appear very small. What is deficient in stock must be made up to them in credit; and this will be in proportion to their integrity, capacity, and good fortune. A frail security for paper, which is to become the money of a nation! Such securities must either be rejected by every bank whatever, or the whole fabric will tumble into ruin. But this subaltern class of dealers may have recourse to merchants, whose wealth and funds are solid and extensive. To these a bank may give credit, and they again, in their dealings with the other class, may indemnify themselves of all the risk they run, by profits in proportion to it.

This class of merchants I call *exchangers*; because they deal principally by bills of exchange in the credits they give, which are of the greatest advantage to an infant trade and a growing industry.

CHAP. VII. When banks were first established, there was no money known but coin, and many there still are, who do not clearly see how money can possibly be made of any thing but metal. The scarcity of coin raised the rate of interest, and when banks began to
lend

lend their paper, they exacted the same interest as if they had been lending coin. Hence they were obliged to promise payment of their notes, in coin, upon demand. In consequence of this, the policy of circulation proceeds upon the supposition, that bank notes are equal to coin in every respect; and when any interruption happens in the ready exchanging them at the bank, all runs into confusion. I shall afterwards shew how this might be prevented.

While a country has a balance of trade, either at par or in her favour, no body has occasion for coin, except to reduce bank notes to their lowest denomination of money. But when a balance is due to other nations which must be paid in gold and silver, every one who wants coin for that purpose, runs to the banks, which are obliged to pay in it; and then they are thrown into distress. Hence we may conclude, that a bank taking upon itself the obligation of paying in coin, without carrying its policy farther than the banking trade, cannot stand its ground in a country which owes, upon an average, a balance to other nations. This opens a new and a most curious combination.

CHAP. VIII. In the mechanical operations of trade, when they are not combined upon principles, and directed by a superior policy, every balance due from one nation to another upon the whole of their reciprocal payments, that is, in consequence of their debts and expences abroad, as well as in the course of their mercantile operations, must be paid in the metals.

For transacting this balance, there is a set of merchants who deal in the business of exchange. Every debtor to another country is supposed to have value in his hands for it, which he converts into bank-paper; with this he buys a bill of exchange, drawn upon the place where he is debtor, and the exchanger who sells it, demands coin of the bank, which he sends off for payment of his bills. If during this operation the bank should stand with its hands across, and only think of expedients to provide coin, it is evident, that if specie should totally fail in the country, trade must be at an end, and the credit of the bank would be undone: for no body will enter
into

into every combination necessary to discover the impossibility of converting the whole paper currency of a nation into gold and silver. Thus a bank which cannot pay in coin, will be supposed to be ruined, though in reality it may be worth half the property of the state.

Is it not then of great consequence to banks, and to a nation, that the principles of their trade, and the security of their paper, should be well understood? And is it not wonderful, that they themselves have not made evident a thing which they must understand far better than any one who has not had their experience?

CHAP. IX. When a country gentleman owes money in town, beyond what his rents can pay, does he not borrow from some body who has money? Does not this borrowing prevent his lands and his houses from being torn to pieces by those who have a right to demand money of him? Would he not be laughed at, if he were to delay pledging a part of his property, in order to secure the whole?

The case is just the same with banks. They owe a sum of coin equal to all the paper they have in circulation. In this they represent the country gentleman. Foreign nations demand payment from them in coin; because it is the same thing whether this demand be made directly on the bank, or on those who can demand it of the bank. Such nations represent the town. Must not then the bank borrow upon the credit of the securities pledged at the time they issued their notes, and which to them represent the gentleman's lands? And can they borrow from any but those who have money? Their own country can have none to lend, while they owe a balance; they must therefore borrow from other nations, and transfer what they borrow to their creditors abroad.

Hence I conclude, that as nations which have coin pay what they owe with it, and thereby diminish its quantity; so nations whose money is their land, must pay in land, to the diminution of that species of property: and as a man who owes a thousand pounds upon his estate is only proprietor of it for the remaining value;

value; in like manner, a country which pays an annual interest to other nations, is only proprietor of what remains.

CHAP. X. If the country gentleman, who is pushed by his creditors for money, which he cannot expect to draw from his rents as they become due, should borrow, for a few weeks, from one who, after that time, will have occasion for his money himself, he will be put to all the expence of giving security for it, and at the end of that short time, he will be at as great a loss as ever to find money to reimburse the man who had lent it him. This represents the expedient used by banks to obtain temporary credits, instead of a permanent loan upon a regular interest.

CHAP. XI. When trade goes on well, and produces a regular balance in favour of a country, the trade of banking is easy, and few employments require less capacity. But when the balance begins to be unfavourable, and when, in self-defence, they are obliged to deal in exchange, the case is different.

Whatever balance is due abroad must be paid by the banks, as has been said, either in coin or in credit. As long as they pay in coin, the business of paying the balance is left to exchangers, who conduct the operation. But whenever banks borrow abroad, upon a permanent loan, and thereby acquire a fund to draw upon, the business of exchange falls naturally into their hands, and they may profit of it according to circumstances. In this case, not one shilling of coin can go out of the country, in the way of payment; because there will be a loss to any one who sends it away, when he can pay cheaper by a bill.

CHAP. XII. But the most complicated combinations arise from the consequences of a wrong balance on the state of domestic circulation. I hope this matter will be more easily comprehended, from the short recapitulation I am now to give of it, after all that has been said upon the doctrine of taxes, and of the difficulty of paying them, when money is sent abroad.

Money is the instrument of alienation; and when this instrument is taken away, alienation must cease. Now, it is a matter of indif-

indifference as to circulation, whether money be rendered scarce by being sent out of the country by the state in time of war, or by the subjects who owe it to strangers in time of peace. A determinate quantity of money is requisite for domestic circulation. In whatever way this comes to be diminished, it is the duty and interest of banks to fill up the void as fast as possible, by readily furnishing credit at all times to those who can give security for what they demand. If banks, by paying balances, shall have exhausted their fund of coin, the fault is their own. Why did they not in time provide the necessary funds abroad? But in whatever manner they pay the balance, the consequence is, to take a sum of money equal to it out of domestic circulation; and this cannot be replaced but by more money lent by them upon new securities. If an ill grounded fear should at such a time engage them to refuse credit, when demanded, the country will be in a worse situation than if banks had never been established, from the sudden diminution of money, which, without that establishment, never could have happened.

But if banks would consider the whole foreign balance as immediately their own debt) and it is so, when they are obliged to pay it) they would provide the easiest method of acquitting it: since none of the expence incurred can fall upon them, in any proportion to the gain they make, in receiving interest for all they lend, and in paying none for what they owe within the sphere of their own circulation.

CHAP. XIII. Whatever contracts circulation, hurts a bank, and offers no relief to it with respect to the payment of balances. If they borrow money at home, they cut off the branch they stand upon, unless they continue at the same time to give credit to all who demand to borrow upon good security. This last combination was omitted in the chapter I am now recapitulating; because of the multiplicity of those I was obliged to introduce, in order to demonstrate how hurtful it is for banks voluntarily to diminish the circulation of the country where they are established. I shall therefore

therefore bring it in here, and refer to the chapter for the other combinations which cannot be abridged.

Did banks, upon mortgage, make it a rule to borrow all the money offered to them, at a small deduction from the common interest, while at the same time they continued to lend as formerly to every person of good credit; the consequence in a little time would be, that they would become the absolute center of all borrowing and lending, and the greatest part of the expence of drawing securities would be saved.

Every person who had money to lend, would lend it to the bank; and every one who had money to borrow, would borrow it of the bank. Upon these two operations, the difference of interest paid, and received, would more than balance the additional expence of so great a detail. But then indeed some new law would be necessary to facilitate securities. The clogs laid upon solid property oblige the bank to insist upon conditions, which put it out of the power of many persons of good credit to borrow from them. But I do not propose plans: my aim is confined to principles; and from those I have mentioned a new clause in bank notes would arise, viz. to pay in coin; or by a transfer of interest at a determinate rate, at the option of the bearer, not of the bank.

CHAP. XIV. This would be an optional clause, very different from that lately introduced into Scotland, where the option of paying interest was left to the bank. This has since been wisely suppressed; because it proved a heavy clog upon circulation, and enabled the bank to avoid doing what their own interest, and that of the nation, required of them, viz. the ready payment of all balances against the country. But in suppressing optional clauses, government should facilitate the means of paying balances, and of providing coin. This is done by establishing and supporting the credit of the banks, in proportion to the solidity and extent of their funds. An example of this nature occurred in Ireland, in April 1760, when the parliament interested itself directly in the support of the credit of some private bankers. A mint also is necessary;

cessary; or if this should be judged improper or superfluous, some assistance at least should be given in conveying coin from the place of its fabrication.

CHAP. XV. All branches of policy are brought to perfection by degrees, when, instead of being established at once on found principles, they introduce themselves mechanically, by custom and practice only. When therefore a national bank is not found to answer all the purposes expected from it, private people imitate their plan, and fill up the void. Thus in Scotland, when the banks of Edinburgh did not sufficiently support circulation in the more distant parts of the country, private banking companies were erected, and degenerated into a great abuse. Every one issued notes payable to bearer. Thus the public was filled with paper money, the credit of which was quite unknown to many, who were however forced to receive it.

Whatever is payable to bearer, is payable to the public; and no doubt the public has a good right to prevent the issuing of notes by any but such as it has confidence in. When a note is payable to order, every one who circulates it is responsible for the value; but when it is payable to bearer, there is no recourse upon any but the first grantor of the obligation. Such regulations therefore should be made in this respect as may give a solidity to the paper, facilitate a general circulation, and prevent the establishment of a currency confined to particular districts within the same country, which tends to introduce a course of exchange from one town to another. This would be the case, were the circulation of every county carried on by the county bank. A communication, therefore, of interest between the banks of a country is requisite, or else the obligation to pay should not be confined to the place where the bank is established.

CHAP. XVI. Here I resume the principles I have deduced, in a short sketch of a general plan of regulations for a bank of circulation.

CHAP. XVII. If proper regulations upon the banking trade should be found inconsistent with the laws and manners of a people, which require a more extensive liberty to every one to carry on what commerce he thinks fit, I think it is reasonable that every company of merchants who issue paper, payable to bearer, without the sanction of government, should be obliged to subject their books to some kind of public inspection, that it might be seen whether the credit they grant to individuals be of a sufficient solidity to answer for the notes they circulate.

CHAP. XVIII. The numberless distresses of the Scots banks at the end of last war, made it necessary to show, in a particular chapter, what the consequences might have been, had the banks at that time totally withdrawn their credits, and given up business. This step would, *1mo*, have cut off their whole profits of banking. *2do*, It would have ruined the whole class of exchangers; and with them, *3tio*, the whole trade and manufactures of Scotland.

CHAP. XIX. Here I take a farther step into those intricate combinations. I now shew how the whole obligation, both of paying in coin, and discharging foreign balances, may be taken off from those who administer a national bank. Their notes are proposed to be paid by a proportional transfer of interest. All interest due by banks on that account, and to banks for credit given, is proposed to be paid in coin at certain terms. Those who have occasion for coin are to buy it at the mint: but this coin is entirely calculated for domestic circulation; and therefore a very moderate quantity of it will be necessary. And for the payment of all sums due to foreign nations, I lay it upon government, according to the plan proposed in the 5th chapter, upon exchange.

Thus the whole policy of circulation is divided into three distinct branches:

1mo, The melting down of property, and keeping circulation full at all times. This is the business of banks.

2do, The providing of coin is the business of mints.

3tio, The granting bills on foreign parts, for value in the national currency, is the business of the state.

CHAP. XX. The objection to this doctrine is, that if notes are not payable in coin, they cease to be of value. The answer is short. The use of paper money is to keep reckonings of value between people who have property; the use of coin is to avoid giving credit to people who have none.

The value of the paper in the country is ascertained by the value of the interest which is paid for it in coin; and by not paying the capitals in coin, you prevent its being carried off without necessity, whenever a balance becomes due; which balance might be paid by the means of credit.

CHAP. XXI. I shew, by many arguments, (afterwards employed in the 10th chapter, upon public credit, and which render this combination more simple than I should otherwise have been able to make it in this place) that the return of a favourable balance of trade will clear the bank of all the foreign debts contracted by it, for the relief of the country; as a like favourable balance on the trade of Great Britain has the effect of setting that nation free from a proportional part of the money due to strangers. In this case, the favourable balance is incorporated in the public funds due to natives: in the other case, it is incorporated with the stock of the bank securities, and enables them to relieve that part of them which was engaged for the interest paid out of the country.

CHAP. XXII. The constitution of the bank of England differs essentially in some particulars from that of banks upon mortgage, and private credit. It is not so much calculated for multiplying the currency, by melting down private property, as for facilitating the circulation of the trade of London, and exchequer of Great Britain.

The grounds of confidence upon which the notes of this company stand are very great.

1mo, A capital of eleven millions sterling, for which they are creditors to the nation.

2do, A

2do, A sum of credit-cash at all times in their hand, of about eleven millions more.

3tio, The bills of exchange of all the great merchants of Europe, which they discount.

4to, When they issue paper to government upon the faith of taxes, or circulate exchequer bills, they have the security of the public faith for the short advance of a few months.

This bank, I have said, is more useful for promoting circulation than for augmenting it. It has however lent its assistance in this respect on very critical occasions. It has circulated exchequer bills; and tallies, which, from discredit at the time, were as ill calculated to supply the use of money, as lands or houses are, from their unwieldy nature. The great advantage the public reaped from such operations, abundantly shew the utility of banks, which are calculated for that very purpose.

The principal operations of this bank are, to receive and pay away the greatest part of all the national revenue, expences, and debts; to discount bills of exchange payable at London, and to supply the country with coin.

The demand of London for subsistence and manufactures from the country of England is so great, that the whole amount of what is sent up to that city, for taxes, and for land-rents there expended by the proprietors, does not compensate it. From which it follows, that by the bank's not giving credit upon private securities, the whole of their paper is in a manner confined to the capital; and if any part of that paper casually goes into the country, it quickly returns, in payment of what would otherwise be remitted in bills. So that paper circulation in the country of England is very inconsiderable, when compared with the coin.

The intention of this chapter is to examine and compare the principles of the two species of banking, and to point out their several consequences as to circulation; from which I am led to think, that if banks of circulation were to be established in the country towns of note in England, they would greatly promote industry

every

every where, and occasion no inconvenience from their contract with the national bank.

CHAP. XXIII. After deducing the principles upon which the solidity of paper money is established, I proceed to point out the bad consequences of issuing bank-notes upon a precarious security. The bank established in France by Mr. Law, and the fatal catastrophe it brought upon that nation, furnish excellent matter for illustrating the doctrine of paper credit.

The late King of France left, at his death, a debt upon his kingdom of 142 millions sterling; the coin being at 28 livres the marc of silver.

CHAP. XXIV. In a few months after his death, the debt was reduced to 100 millions, by the turn of a wheel. The coin was put at 40 livres the marc. But as the hundred millions sterling, *in intrinsic value*, after the reduction, contained as many livres in *verbal denomination*, as the hundred and forty millions did before, the greatest inconvenience discovered by the people was confined to the necessity imposed upon them to sell their old coin at the King's price.

At this time Law set up his bank, and without doubt assisted people in that respect, with very great benefit to himself.

CHAP. XXV. He divided the capital stock of the bank into 1200 shares, of 5000 livres each (the livre at this time was exactly a shilling sterling); and the purport of the notes he issued was, that payment should be made, at all times, in livres of the same intrinsic value.

This bank was established on the principles of the Scots banks, and lent sums upon every species of good security. The consequence was, that in less than three years, France, from being in the most miserable situation for want of money, credit, consumption, and industry, was raised, as by magic, to the greatest affluence. The reason was plain: there wanted nothing but an instrument to set all the inhabitants to work. This Law gave them in a

moment;

moment; and their own work was the cause of the affluence which astonished them.

This effect was produced by an inconsiderable sum of notes: they did not exceed three millions sterling when Law gave up his bank. But credit and confidence were established by that small sum; and the notes brought out all the coin which had been formerly locked up. It is not a great quantity of money, but an exact proportion of it, according to demand, which supports trade and industry. That proportion may be sustained by the means of banks, but by no other expedient whatever.

CHAP. XXVI. Law's bank was no sooner established, than he sought to enlarge his bottom. He found a trading company ruined in their affairs, though intitled to great privileges. He found also large sums of public state billets circulating at great discredit, from an ill paid interest. He got a grant of the company to himself and associates. He opened a subscription for 200,000 shares, of 500 livres each. He took payment in those discredited obligations; and when he had got the state billets, (given in at subscribing) he engaged the Regent to promise punctual payment of the interest. This was no sooner done, than the discredited paper, which was become an action, or a share, as we have called it, only by being subscribed for to Mr. Law, rose above par. The nation cried out, a *Miracle!* Law was a favour, in the eyes of some, a conjuror in the opinion of others.

His credit and his capacity for conducting the greatest undertaking within the power of numbers and computation, being established, inspired the Duke of Orleans with a scheme of unbounded ambition, which, in favour of many who have never rightly comprehended the nature of it, I have been at very great pains to trace, in the eight following chapters. And as a recapitulation is useful to assemble ideas within a small compass, which have been dispersed through many combinations in the work itself, I shall here, in a few lines, give a general idea of the whole plan.

The

The Regent perceiving the use of paper money, well secured on solid property, resolved to take the bank into his own hands, in order to issue paper sufficient to pay off the whole debt of France. Now paper issued for paying debts is secured upon no fund at all. It is the same as if it were issued for payment of meat and drink. The whole security therefore was his own word.

But the difficulty was to prevent this paper from instantly returning upon the bank; because it far exceeded all the uses of circulation, and, consequently, could not be suspended in it.

The expedient fallen upon was to raise the value of the actions of Law's company, (which by the subsequent incorporation of new privileges were multiplied beyond 600 000) to a great height, by promising great dividends upon them. The company accordingly promised a dividend of 200 livres a year, upon a capital which was originally worth no more than 500 livres.

The great quantity of paper money dispersed had sunk the rate of interest to 2 *per cent.* The dividend, therefore, combined with the rate of interest, carried the market price of the action to 10 000 livres. Here was a new fund provided as an outlet for all the bank notes paid to the creditors; and in proportion as they bought the actions from the Regent, or the company, whom I here consider as the same, the notes were to be cancelled.

By this operation all the debts of France were to be converted into actions of the company of the Indies, and were to share its fate. But then it must be remembered, that this company had in a manner the whole revenue of France in farm; and by a recapitulation of the different branches of their profits, their income amounted to eighty millions of livres a year. So that if matters had been well managed, had credit been supported by fair dealing, had no arbitrary acts of power, in tampering with denominations of coin and money, taken place, and had the Regent supported and encouraged the company; they in fact might have been able to pay more than all that was required of them; and the very diminution of the interest of the public debts, by the fall of money

to

to 2 *per cent.* was, in effect, cutting off one half of the capital. So that if we suppose the total value of the 2000 millions of debt equal to 100 millions sterling, the debts of France, by this scheme, would have been reduced to an annuity of 2 *per cent.* on a 100 millions, or two millions sterling a year paid to the company, who then represented the creditors of the nation.

But the project was too great; the capacity of those who were in the management was too small, and the time was too short for bringing about so great a revolution: thus it failed; but in a way which suggests no reason to believe that it might not have been supported.

CHAP. XXXIV. The denomination of the paper was reduced to one half by an act of power: a man who, for example, had a bank note for 100 *l.* had it reduced to 50 *l.* This at once destroyed the whole credit of France. But it would have stood its ground, without doubt, had the Regent called the fifty pounds with which he paid such a note, one hundred pounds; although, if you abstract from the interests of debtors and creditors, which never were attended to, it was absolutely the same thing. The altering the denomination of paper implies, however, this additional injustice above that of altering the denomination of coin, that it changes the value of the paper in all cases; because it contains no other value than the denomination: whereas coin has a value independent of that, which no law can alter.

CHAP. XXXV. The form of a bank proposed for France, in this chapter, is pretty much the same with that mentioned in chap. 16; only here I have not even admitted the payment of the interest in coin, for fear that an act of power, by carrying off a few thousand louis d'ors on a present exigency, might totally ruin the credit of such a bank, and consequently draw ruin on the whole nation.

This bank is intended merely as an office for keeping accounts between people of property, and thereby of greatly increasing and supporting circulation.

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CHAP.

CHAP. XXXVI. Having dismissed the subject of banks of circulation, I come next to those of deposit. Here I deduce the principles upon which the bank of Amsterdam is established.

This bank issues no paper, and grants credit upon no security but coin locked up in their vaults. Consequently, the ground of their credit is the faithful preservation of this coin. Were it at any time to be diminished below the value of the credits written in their books, the nature of the bank would be changed. Were the coin to be lent on good security, such a bank would then immediately become a bank of circulation upon mortgage; since it would be the same as if the credit had been at first granted upon that security. Were the coin disposed of for no value, the bank would be from that moment bankrupt in fact, although the secret might be kept for a long time.

CHAP. XXXVII. The intention of establishing a bank of this nature at Amsterdam was to fix the seat of trade in that city. The ordering all bills of exchange to be paid to the bank in coin, and the giving to the holders of the bills only a credit in bank for the value, was an effectual means of obliging the proprietors of that credit to carry on their trade in the place where their funds were established beyond a possibility of removing them, except by transferring them to others who, by accepting of the transfer, came under the same necessity. Were indeed trade to become incompatible with the situation of the city, as if an earthquake should fill up the port, then the bank would either be removed elsewhere, or the credit writ in their books would become of no more value than gold in an inaccessible mine. This regulation also prevented the circulation of bad coin; because when payment of bills was made to the bank, they took care that nothing but good coin should be received.

From these regulations it appears that money cannot be multiplied by banks of deposit; but on the other hand, it cannot be diminished by exportation, without the act of the bank; and the transfer

transfer of credit answers every use of coin in trade, and prevents also its waste in circulation.

CHAP. XXXVIII. Coin is liable to constant vicissitudes. Its denomination may be changed by an act of power, and its real weight may be diminished in circulation. But when it is locked up, all these inconveniences are prevented. Bank money, therefore, being the value of the coin locked up, is constantly the same: whereas all coin which circulates is liable to variations; consequently, these variations are relative to the coin which circulates, and not to the bank-money. The difference between the one and the other is called *agio*.

CHAP. XXXIX. Many have imagined the treasure of the bank of Amsterdam to be immense; because no body can ever take any thing from it, and that it is constantly receiving new augmentations: but the policy of the bank itself destroys this supposition, and shews plainly, that the sum locked up never can exceed what is absolutely necessary for circulating the trade of the city.

It is true, no person can go to the bank and demand to have the amount of his written credit paid him in coin. But were the written credits to exceed the uses found for them, the value of such bank-money would diminish; consequently, the value of the circulating coin would increase, which is the same thing. Now as this would prove a great discredit to the bank, they employ a set of cashiers or brokers to keep the balance even. Their business is to buy and sell bank credit with current coin, and to these the bank gives credit. When there is a demand for bank credit, the cashiers sell it for coin, and both parties going to the bank, a new credit is written, or the cashier's credit is transferred to the buyer. When, on the other hand, coin is demanded for bank credit, the cashiers pay for it with coin which the bank lends them; and for their repayment, they transfer to the bank the credit they have bought with it. This needs a little explanation. Suppose one to have credit in bank for a thousand guilders, which he wants to send away in coin. He goes to the cashier and sells his thousand guilders of bank credit: the

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bank

bank lends this thousand guilders to the cashier, and the man who sells the credit gets the coin, and makes a transfer of the credit in favour of the cashier. But as he owes this sum to the bank, he transfers this credit to the bank itself, in payment of the thousand guilders borrowed; and then the bank may expunge it, if they please, from their books; because it is due to themselves. Thus although no money can be demanded of the bank by one who has credit, they can give the money to a third party who does it for them.

PART III. *Of Exchange.*

CHAP. I. **F**OREIGN circulation is carried on by bills of exchange.

When reciprocal debts are contracted by different countries, the creditors in both take payment at home for the bills they draw to the order of those who pay; and they again indorse the bills to their creditors abroad.

In this contract four parties concur: the domestic and foreign creditors; the domestic and foreign debtors. This operation can extend no farther than to the amount of reciprocal and equal debts; if there be a balance owing upon one side, this balance must be paid in value, either in money or merchandize. Now as a debt is much easier discharged by compensation than by payment, merchants endeavour to profit of this compensation; but as every one endeavours alike when there is a balance on one side, it operates upon the whole of the exchange, and every one must bear his share of the expence of paying it.

If London should owe a balance to the world, after compensating all that the world owes to her, every London-debtor to the world will wish to compensate; consequently, he will look out for one who is creditor to the world: but this search betrays the secret, and shews that

that he is the demander; upon which the other avails himself of his situation, and refuses to compensate without profit. Hence the secrecy said to be requisite in this branch of trade. It is requisite to the trader only, whose interest is concerned; because whatever one set of merchants in a place wish to conceal, another set have constantly an interest to divulge. The interest of the state consists in preserving an equality of profit and loss among them all; and in facilitating to them the paying and receiving the balances due upon the total of all their transactions. The loss of the nation is upon the balance due by the country; the expence of paying the balance, which is the price of exchange, is only a relative loss to some of her subjects, and a relative gain to others.

The attention, therefore, of a statesman in what regards exchange, is, *1mo*, To take care that the true par between the value of the national money and the money of other nations, shall be as much as possible proportional to the quantity of metal contained in each.

2do, To remove domestic inconveniences in paying with the metals, or national coin, every unavoidable balance.

3tio, To hinder the expence of acquitting a small balance from occasioning a loss on the compensation of reciprocal debts.

And, *4to*, When he finds an inconvenience in allowing the metals or coin to go out of the country, he must assist in having the balance paid in the way of credit.

CHAP. II. The best method for determining exactly the true and intrinsic value of the metals, coin, or money, in which the balance due to or from a foreign nation, is to be paid, is to compare the respective value of fine bullion with the respective denominations of the coin in the two places exchanging; and to state the difference only, as the price paid for the exchange. To render this more practicable, a proposal for rendering all mint-weights more determinate is set forth in a note.

CHAP. III. When upon the whole of a nation's trade with the rest of the world, a balance is due, it must be paid, either in intrinsic value,

value, which totally discharges it, or by giving security for it, and paying interest until the charge can be obtained. We consider in this chapter the methods of discharging it.

A statesman is the best judge when his people ought to pay with bullion, and when with credit. If he approves of their paying with bullion, that is, with gold and silver, he should render the exportation of the metals as easy as possible. If a duty be laid upon coinage, he need not be afraid that any one will send off the coin, as long as bullion can be found; and when this runs short, if he does not choose that his coin should go out, he must lend his assistance in paying with credit. If he finds it against his interest either to pay in one way or in the other, he must put a stop to the trade which creates the balance: for while such trade is permitted, he will find it beyond his power to prevent the payment of that balance in the most hurtful way possible to his country.

I here observe, that in countries unacquainted with trade, and in others where the whole external commerce is carried on by strangers, a good expedient for cutting off such hurtful branches of traffic is to lay all the restraints possible on the exportation of the metals, in order to promote the exportation of what the country can offer in return. But when trade and industry are established, these restrictions cease to be useful; because merchants then find a profit upon exporting domestic productions, which they never can have upon exporting an intrinsic value.

A statesman, therefore, should conduct his operations according to the situation of his country. If foreign trade be unprofitable, cut it off as much as possible, and lay every restraint upon the exportation of coin. If it be profitable, lay no restrictions on payments; because you are sure you will gain upon the whole. And if, in any particular case, you incline to keep your coin at home, mortgage your country, and pay with your credit.

If, when you are obliged to check foreign trade, and lay prohibitions on the exportation of coin, exchange is found to rise to a great height against you, yet will this exchange produce no national

loss:

loss: it will be paid within the country by those who consume foreign commodities, to those who are at the trouble and expence of transacting the balance.

CHAP. IV. Here I demonstrate what before I had in a manner taken for granted, viz. that the price of exchange is neither a national loss, or a national gain; but whether it be favourable or unfavourable, it produces an instability in the profits upon trade, and should therefore be kept at par by all possible methods. I also shew how exchange is favourable to exportation, when the balance is against a country, and how the exchange is unfavourable in that respect in proportion as the balance is for that country: and as whatever exchange is gained by exporters is lost by importers, and *vice versa*, some have concluded, that an unfavourable balance does of itself destroy its own pernicious effects, and sets the balance even. I endeavour to disprove this proposition, by shewing how the importers are indemnified, as to their loss by the exchange, from the additional price they get for their foreign commodities at home; whereas the exporters cannot raise their prices abroad; because foreign competition will not permit them. So that in one case the wrong balance hurts the rich consumer at home, who can bear the loss; and in the other, the right balance hurts the poor manufacturer, who cannot. Hence I conclude, that it is greatly for the interest of a trading state to keep exchange, at all times, as nearly at par as possible.

That this is a practicable scheme, I prove by a matter of fact, and by an experiment made in France by a late minister; where, upon a certain occasion, the exchange having risen to a great height against France, he immediately brought it to par, by ordering bills upon Holland to be furnished at that rate, to those who should demand them; and by taking upon himself the expence of sending the money paid for such bills, to the place upon which they were drawn.

I observe, however, that such operations can only be recommended to statesmen who preside over the interests of flourishing

trading

trading nations; because in proportion as they are benefited by facilitating the payment of the casual balances due by them from time to time, in so far as a prodigal nation hurt, by facilitating the dissipation of their property, and by contriving a ready method of transferring it to foreigners.

CHAP. V. When a nation owes a balance, after all the payments they have been able to make, either in coin, bullion, bills, or merchandize, it is evident, that what remains can only be satisfied by obtaining credit for it, at the expence of mortgaging the country and paying interest for the remaining balance. When this, however, happens to be the case, it involves the nation-debtor in a multitude of expensive operations conducted by exchangers, who constantly find a profit in carrying them on, though at a very great loss to individuals within the country. To prevent this inconvenience, I propose, that the statesman should take upon himself the obtaining of credit abroad, for the balance due by the country he governs; and that the expence incurred by this operation should be defrayed by the public, whereby every individual within the state will contribute his share towards maintaining an uniformity in the profits upon trade, and supporting the stability of commerce, from the regularity of the course of exchange at all times. This operation resembles very much another of which we have already spoken in treating of banks of circulation upon mortgage. There we recommended the payment of foreign balances as a proper branch of bank administration: here we recommend it to a statesman to interpose voluntarily between his subjects and their foreign creditors. This is the best method of supporting commerce, when it happens accidentally to fall under the discouragement of an unfavourable balance.

PART IV. *Of Public Credit.*

CHAP. I. THE credit of a state resembles, in most things, that of an individual: they differ however in this, that when a private man contracts a debt, he himself is answerable for it. When a state contracts a debt, those who contract the obligation in the name of the state are not responsible for it. Hence it happens, that private people are commonly more anxious about paying their debts than statesmen are who administer for the public. Another difference is, that public debts do not so much affect the prosperity of a state as private debts do that of the debtor. The interest of a private debtor is simple and uncompounded; that of a state is so complex, that the debts they owe, *when due to citizens*, are, on the whole, rather advantageous than burdensome: they produce a new branch of circulation among individuals, but take nothing from the general patrimony.

In deducing the principles of public credit, we must suppose it the established maxim in the state to adhere to the faith of their engagements; and that a permanent fund is appropriated for the payment of the interest of all the money borrowed: a liberty must be supposed, at the same time, to redeem the obligation by adequate payment; and also an easy transfer of the capital from hand to hand, to indemnify every creditor for the loss of his capital, which is not demandable from the state, as the case commonly is in private securities.

The consequence of the swelling of public debts, is, to occasion a proportional augmentation of contributions out of private property. The consequence of this again, is, to produce a vibration in the balance of domestic wealth. This creates a monied interest, which swells in proportion as public debts increase; and which may swell to so great a height as to transfer the income of a whole nation from the nominal proprietors to the public creditors.

A statesman, therefore, ought carefully to attend to the spirit of the nation he governs, before he gives way to a regular and systematic augmentation of public debts. In monarchies, the proprietors of lands may bear for a while the temporary diminutions of their annual income, though they will not easily be made to subscribe to a plan which evidently tends to deprive them of all they have, and to transfer their power and property to a set of men whom they have always considered as their inferiors.

In monarchies, therefore, a great increase of public debts will more probably bring on a national bankruptcy, than in governments which participate of the republican form.

The consequences, therefore, of the swelling of public debts may be, either, *1mo*, To disturb the tranquillity of the state; by an attempt to transfer the property of it from the real possessors to a new created monied interest: or,

2do, If a systematical plan of borrowing upon solid security be not laid down, it may mechanically draw on a general bankruptcy: or,

3tio, If debts be allowed to swell beyond due bounds, so as to hurt the interest of the great body of the proprietors, the state may be engaged to adopt the fatal expedient of a sponge: or,

4to, If the spirit of the people prove compatible with the system of borrowing and supporting public credit to the utmost extent, then the whole income of the nation will remain in perpetual fluctuation, passing from one set of creditors to another, the statesman still retaining the administration of it for their use: or,

5to, If the debts contracted become the property of foreigners, these will either remove into the country where their funds are, or the income of the whole will be converted into a foreign tribute.

CHAP. II. While public expence was defrayed from treasures, public credit was a thing unknown. While supplied from rapine and extortion, it never could exist. During the simplicity of ancient manners, when there was neither industry or circulation, credit

was

was unnecessary: the coin was more than sufficient to serve every purpose of alienation.

When trade and industry began to make a progress in Europe, in the Hans towns, and in the republics of Genoa and Venice, the consequences of their credit were soon felt by Princes, who awkwardly began to imitate their example; first, by borrowing money upon mortgages of their lands and principalities; and afterwards, by imposing taxes and selling them for what they could get to a most rapacious set of men, the tax-gatherers. This spread oppression, and this again soon brought the Prince to poverty.

Taxes, however, once established in this violent method, and upon urgent occasions, came, in time, to be improved, and formed a large fund, which now serves as a solid basis for public credit.

CHAP. III. While taxes were only appropriated for a time, for the repayment of the debts contracted by a state, the attention both of the state and of the lenders was totally fixed upon the discharge of the capitals: but in proportion as money increased, in consequence of the whole system of modern political oeconomy, the lenders formed to themselves a new point of view, viz. the acquisition of a permanent interest arising from a transferable capital.

In order to make his change of policy from borrowing with an intention to repay the capital, to borrowing with an intention to pay a perpetual interest, the more sensible, I have traced in this chapter the progress of the first, by a review of the plan of public credit in England until the end of the last century.

Here I analyze briefly the sentiments of Dr. Davenant, and compare them with those established in our days, when the latter policy has taken place; and upon the whole I determine, that the difference in the system of public credit then and at present, has proceeded principally from the difference in the state of circulation, and from the expedients now fallen upon for increasing the quantity of money, in proportion to the uses found for it.

CHAP. IV. I then compare the state of public credit in France, during the administration of Cardinal de Richlieu, with that of

England after the revolution. Here I endeavour to point out the influence which the different forms of government have upon the stability of public credit, both in contracting and in paying off public debts.

In France, the power of the Prince furnishes many expedients for paying off capitals, which had been borrowed at an exorbitant interest in times of public distress.

In England, the limited power of the crown, and the responsibility of ministers for their exercise of it, is a great security to those who lend money to the state; and consequently, proves a very great advantage in contracting debts upon reasonable terms.

The longer the two states subsist, the greater will the advantage be found in favour of that which adheres the most strictly to the faith of its public engagements.

When the credit of France and England are compared together, the difference between them is most remarkable. The strict adherence to the faith of public engagements has established, in England, so nice and scrupulous a credit, that the smallest deviation from its principles may prove fatal to the whole system. The credit of France, on the other hand, has been accustomed to a rougher usage; and the frequent acts of power, to the prejudice of creditors, rather occasion a temporary damp than a total destruction of their credit for the future. Such acts of power, however, in critical circumstances, prove extremely hurtful; and the advantage of a well established credit will, in all probability, either open the eyes of that nation to their own interest, or bring calamities upon them, which now appear little to be feared, in their present situation.

CHAP. V. This chapter contains a short sketch of the plan of public credit, as carried on in Great Britain, from the end of the last century, to the conclusion of the peace in 1763. I here enumerate the principal operations, calculated for enlarging the fund of British circulation, by engaging the bank of England to turn into money the discredited bills and tallies of the exchequer. I have

have pointed out the principle which circumscribes this power in the bank within certain limits. I have traced the progress and fluctuations of the interest of money; which have constantly been in proportion to the demand for borrowing or lending in the market at the time. I have mentioned the rise of the sinking fund, and the use which has been made of it. I have endeavoured to explain the methods of borrowing by *premium*, and have pointed out the inconvenience attending that plan, as long as the principal view of diminishing a nation's debt is confined to expedients for lowering the interest of the capital. I have given a progressive state of the augmentation of the debts of Great Britain at the end of every war; to which I have subjoined a short state of the nation at the last peace.

I conclude my chapter, by assigning reasons for the present low state of public credit in Great Britain; which has been principally owing to the large sums of borrowed money invested in the funds before the peace, upon the prospect of a sudden rise in their price, on the return of public tranquillity. This rise would, undoubtedly, have happened, had it not been obstructed by the necessity which the nominal stockholders were put to, of bringing their funds to market, in order to answer the demands of those from whom they had borrowed what they had invested in stock: and until this operation be completed, that is, until the funds of Great Britain become vested in the real proprietors of them, the state of public credit will constantly be undetermined.

CHAP. VI. Having given a short sketch of the present state of public credit in England, I endeavour, in this chapter, to extract, from the best private authorities to which I could have access, a parallel view of the affairs of France, so far as relates to its revenues, taxes, and debts, at the peace 1763.

By the revenue of France, I here understand, not only what comes clear and nett into the King's coffers, but also what is farther levied upon his people. The parallel therefore will not hold between

between the revenue of France and that of England, as represented in the preceding chapter, without attending to this difference.

The nett revenue of England charged with all its debts and expence of government, we have said to amount to 10 213 000 *l.* The gross revenue of France; on the other hand, appears to amount to 24 740 834 *l.* sterling.

But if from this be deducted that part which never enters the royal treasure, and which is expended in levying the revenue, and in appropriations for particular perpetual expences, to the amount of 6 815 111 *l.* sterling, there will remain of net income, paid into the King's coffers, and charged with all the debts and expence of government, only 17 925 723 *l.* sterling.

If from this sum we deduct the total amount of the net revenue of Great Britain, (10 213 000 *l.* sterling) the remaining sum of 7 712 723 *l.* sterling, will shew the excess of the French revenue above that of England.

The foregoing sum of 17 925 723 *l.* sterling, arises from the following branches:

1mo, Those which compose the King's ordinary revenue; which, at the peace 1763, amounted to 12 546 666 *l.* sterling, burdened with the payment of 2 022 222 *l.* sterling of interest of the debts charged upon it.

2do, The extraordinary taxes established for a limited time, after the peace of Aix-la-Chapelle. These amount to 2 326 133 *l.* and are totally appropriated for the payment of capitals, and interest upon them, incurred during the late wars, according to the principles of public credit in practice in England, during the reign of K. William and Q. Anne: and so soon as this fund has cleared the charges upon it, it is to cease, being no permanent branch of revenue.

3tio, The extraordinary revenue raised on account of the last war. This amounts to 3 052 923 *l.* sterling, and consists of the second and third twentieth penny, granted for a very limited time, and appropriated, as the former branch, for discharging the debts lately contracted.

tracted. The sum of these three branches made the total of the 17 925 723 *l.* paid in to the King's treasury, and burdened with all the public debts.

If we therefore suppose the two last branches of French revenue to be continued until all the debts charged upon them are paid, then we shall find the state of that kingdom reduced to the King's ordinary revenue of 12 546 666 *l.*; from which however must be deducted at least one half of the capitation. This half amounts to 1 182 222 *l.* sterling, and is so burdensome, that its continuance will be impossible. The revenue therefore will be reduced to 11 364 444 *l.* sterling, charged with 2 022 454 *l.* sterling, interest of debts; of which indeed 711 111 *l.* are annuities upon lives, and must therefore be extinguished in time.

According to this view, the revenue of France will be 11 364 444 *l.* sterling, charged with the annual payment of 2 022 222 *l.* interest of debts: and the revenue of Great Britain is 10 213 000 *l.* charged with the annual sum of 4 860 000 *l.* interest of debts.

What remains free for France is 9 342 222 *l.* sterling; and for England, 5 353 000 *l.*

But out of this free revenue of France must be deducted the permanent articles of expence charged upon the ordinary revenue, exclusive of the interest of debts already deducted. These articles amount to the sum of 8 468 889 *l.* which being deducted from 9 342 222 *l.* leaves a free balance of no more than 873 333 *l.*

On the other hand, if we suppose the net amount of the revenue of Great Britain, after paying the interest of its debts, to be, as above, 5 353 000 *l.*; and if the expence of the current service of the year, including the civil list, be supposed to amount to 4 800 000 *l.* sterling, as it nearly did, before the commencement of last war, there will remain of free balance 553 000 *l.**

* But if the current annual expence should not exceed 3 600 000 *l.* or 4 400 000 *l.* including the civil list, which is nearly the present estimate, we may then add 400 000 *l.* to the free balance, and state it at 950 000 *l.* in round numbers.

From all which we may conclude, that, abstracting from extraordinary supplies for extraordinary exigencies, the revenue of both nations is pretty nearly in proportion to their current expence; and, therefore, their respective powers, when engaged in war, will be in proportion to their credit at the time.

CHAP. VII. In comparing the credit of the two nations, two things enter into consideration. First, the confidence of the world, in the solidity of their respective public faith. This I take to be totally in favour of the British nation. The second is, the solidity and extent of the funds, which are to be provided in security of the sums to be borrowed upon future emergencies. These resources, in France, we have seen to consist in their dixiemes, vingtiemes, double capitation, and extraordinary impositions upon the clergy, and other bodies politic; taxes so burdensome in their nature, and so contrary to the spirit of the French nation, that it is hardly possible they ever can be made so permanent as to answer any other purpose than a short temporary appropriation.

The true resources of France are confined to those taxes upon consumption above enumerated, which do not enter into the ordinary revenue, and which are now imposed and appropriated only for a time. When these taxes become free, they may no doubt be rendered perpetual, and appropriated for a future fund of credit.

On the side of Great Britain, the case is different. The greatest part of her revenue is already perpetual; and the only two branches of annual grants, the land-tax and malt-duty, are not so excessively burdensome, nor so repugnant to the genius of the people, as to render the raising of them at all precarious. And were this nation once to adopt the system of raising money, in time of peace, sufficient to defray the charges of government, the sinking fund would prove a resource for the future, far above any thing that France can boast of.

CHAP. VIII. Having by this short sketch of the state of credit in Great Britain and France, prepared a sort of canvass for our farther reasoning, I proceed to apply principles to some combinations, which

which might be formed concerning the consequences of an over-stretched credit.

In proportion as credit is used for borrowing money to be sent abroad, either a supply of currency must be provided for filling up the void, or alienation, trade, industry, &c. must suffer a check.

And even if money should be borrowed to be spent at home, an additional quantity of it must be added to circulation; because this new expence of the state will require it.

Every fund of property may be converted into money, with the assistance of credit, providing the statesman lends his hand to the operation: and the fundamental principle for supporting credit of all kinds, is, to provide every one with money who has property to pledge for it.

When money is borrowed by a state, to be spent abroad, the loan must either be made in coin, or in paper. If in the first, it is exported; because coin is the money of the world: if in paper, it must either be converted into coin, and exported, or it must be remitted by bills, drawn upon countries, debtors to England, for example; or, in the last place, it must be paid in the way of credit, by constituting England debtor to the Continent for it. When it is paid by bills drawn upon countries, debtors to England, then the consequence of such a loan is to convert the balance of trade into a capital in the public funds.

In whatever way money is borrowed by a state, whether from natives, or foreigners, the consequences are the same. The operation of a favourable balance of trade will transfer what is owing to foreigners in favour of natives; and a wrong balance of trade will transfer the property of natives to foreigners.

If no check be put to the augmentation of public debts, if they be allowed constantly to accumulate, and if the spirit of a nation can patiently submit to the natural consequences of such a plan, it must end in this, that all property, that is income, will be swallowed up by taxes; and these will be transferred to the creditors, the state retaining the administration of the revenue.

The state, in that case, will always consider those who enjoy the national income as the body of proprietors. This income will continue the same, and the real proprietors will pay the taxes imposed; which may be mortgaged again to a new set of men, who will retain the denomination of creditors; until by swallowing up the former, they slip into their places, and become the body of proprietors in their turn, and thus perpetuate the circle.

CHAP. IX. But as a thousand accidents may put an end to public credit, before such intricate revolutions can be accomplished, the consequence must be a bankruptcy. This may either happen by a deliberate act of government, or from the natural consequences proceeding from an over-stretched credit.

I here endeavour to shew, that it is impossible to form a supposition of circumstances, in which a deliberate act of bankruptcy can be a prudent measure. The only end that could be proposed to be attained thereby, would be, to relieve those who are oppressed by taxes. But a sudden abolition of taxes would have the effect of ruining the landed interest, as well as all the manufacturing classes. Sudden revolutions are constantly pernicious; and no revolution can be so sudden as that of a bankruptcy. If such a revolution should happen, from circumstances which can neither be foreseen or prevented, the best expedient would still be, to adhere, as much as possible, to the faith of public engagements; because no expedient would be so productive of good consequences, in such a calamitous situation.

While the debts of a nation are due to its subjects, and while there remains any balance due in favour of the nation, no increase of debts can necessarily bring on a bankruptcy. It is a contradiction to suppose that a nation can become bankrupt to itself. But when, on the general state of payments between a nation and the world, there is found an annual balance due, which cannot be compensated either in the way of payment, or in the way of credit, then indeed a bankruptcy becomes unavoidable.

From

From this reasoning we may conclude, that the method of determining the exact extent of public credit, is to keep a watchful eye upon the increase of debts due to foreigners, and to compare these with the favourable balance upon the trade of the nation. When those debts and this balance begin to draw near to an equality, if part of the capital of the public debts be not immediately paid off, by an augmentation upon public contributions, the infallible consequence will be a state-bankruptcy.

CHAP. X. The first requisite for contracting public debts, is to establish a fund for fulfilling public engagements. This procures the confidence of the lender. The next is, to establish an extensive plan of credit at home, which may be sufficient at all times to keep circulation full.

When, from the effects of borrowing, too great sums are, from time to time, drawn out of circulation, the void must speedily be filled up. If this be neglected, taxes will not be paid, as has been often observed: besides, if money be allowed to become too scarce, in proportion to the demand for it, interest will rise, and borrowing will become proportionally more burdensome to the state in general.

Foreign expence frequently drains the fund of circulation at home: hence a multitude of inconveniences arise. To prevent these, I suggest a new scheme of borrowing, by opening subscriptions in foreign countries where the interest is annually to be paid. This being to be remitted by the country borrowing, a statesman may, with the greater ease, obviate the inconveniences which might arise to circulation from such remittances.

In this chapter, I endeavour to prove by new arguments and illustrations, that national distress is more owing to a scanty circulation, than to circumscribed property; and a statesman who neglects to employ every method for keeping up the circulating equivalent within the state he governs, to the full proportion of all the uses found for it, fails in the most essential requisite for promoting

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the prosperity of his people, and the establishment of his own credit.

Having pointed out the methods of contracting debts, I proceed to the method of paying them. This may be accomplished in six different ways, by the help of a sinking fund; which,

1^{mo}, May be applied annually, to the discharge of certain capitals, at the option of the state. Or,

2^{do}, According to a certain rule, to determine the preference.

3^{tio}, By appropriating the fund, for the payment of a proportional part of the whole outstanding capital. Or,

4^{to}, By reducing the interest of the capitals. Or,

5^{to}, By converting the whole of the capitals into determinate annuities, proportionate to the extent of the sinking fund. Or,

6^{to}, By the means of lotteries, where the state may gain what gamblers are willing to lose.

I point out the advantages and inconveniences of every plan. The first five expedients are too plain to require a recapitulation. The sixth amounts briefly to a supposition, that the interest of the public debts is brought, by a proper chain of administration, to a lower rate than in any other part of Europe. In this situation, accidental circumstances will occasion (as at present) fluctuations in the price of the stocks. When they fall below par, let government open subscriptions for lotteries, to be paid in stock at the market price. Subscriptions also might be opened, and the old capitals might be received at the market price, and constituted a-new at the current interest, with a small premium above the rate at the time. By such means, the sum of the old capitals would be reduced, and a small benefit would accrue to the subscribers. Then, upon the rise of the stocks, the interest on these subscriptions might be reduced again; from which a double benefit would result; the price of stocks would be supported on one hand; and the capitals of the public debts would be reduced on the other.

C H A P. XIV.

*Recapitulation of the Fifth Book.**Of Taxes.*

INTROD. HAVING already explained the effect of taxes upon domestic circulation; it now remains to investigate the principles by which they are to be imposed on their proper objects.

CHAP. I. I divide taxes into proportional, which affect consumption, or, more properly, what may be called expence; cumulative, which affect property; and personal, which consist in personal service. These I explain by giving examples of each.

CHAP. II. Proportional taxes may be so imposed as to affect almost every expence of living; and as all expence should arise from income, not from stock, the first principle of taxation, is, to confine all impositions to income only: whatever affects a capital is oppressive and unjust. But as in all expence there is alienation, although in all alienation expence is not implied, the best method to avoid the mistake of taxing stock instead of income, is, to impose the tax in such a manner as to affect the consumers only; in which case, whoever buys to sell again will draw the tax completely back.

CHAP. III. In this chapter, I fully explain the operation of drawing back proportional taxes.

When the commodities charged with such taxes are either not consumed by purchasers, or by the industrious classes, they are constantly drawn back, except so far as the consumption made by the latter is an article of superfluity.

Hence I conclude, that the price of *labour* is raised by proportional taxes, in proportion to industry only, though the price of the

the *commodity taxed* be raised in proportion to the tax. Consequently, the more taxes are found to increase the price of labour, the more we may conclude in favour of the industry of the manufacturing classes: and the more they bring into the exchequer, the more we may conclude in favour of the ease and opulence of those who consume the objects of such taxes.

CHAP. IV. The proper object of cumulative taxes, is the large possessions of the higher classes of a people, which can bear a diminution in favour of the state, without danger of encroaching upon their necessary or easy subsistence. It is not so when they are laid upon the lower classes; because these are either composed of the industrious, or of beggars. The first should be enabled to draw back from the rich, what they advance for the public service. The latter have nothing to give; to tax them is but adding to their misery, without relieving the wants of the state.

The great advantages of proportional taxes over the cumulative, may be reduced to three.

1^{mo}, The proportion between the tax and the object taxed is determinate.

2^{do}, The proportion may be known to every body.

3^{tio}, The time of paying the tax is regular and gradual; because in paying for the commodity you pay for the tax, and your liberty in buying such commodities is unrestrained; consequently, the expence is supposed to be in proportion to what your income can afford. Whereas in the cumulative taxes, it is, first, hardly possible to preserve the proportion between the tax and the ease of a person's circumstances. In the second place, it is impossible for the state to ascertain exactly that proportion. And in the last place, the demand for the tax is made at a time when people are often unprepared.

CHAP. V. The principal inconveniences alleged against proportional taxes, are, 1. That they raise prices: 2. Discourage consumption: and 3. That they are oppressive and expensive in the collection.

These

These inconveniences are more apparent than real, as will appear from what follows.

1^{mo}, A proportional tax, rightly imposed, and properly levied, will undoubtedly raise the price of the objects taxed; but it will only consequentially raise the price of the labour of the industrious man who pays it; because he will draw it back in proportion only to his diligence and frugality.

The price of labour is *regulated* by demand, and is *influenced* only by proportional taxes.

2^{do}, As to discouraging consumption, if taxes raise prices, this circumstance proves the increase of consumption; because if consumption were to diminish, taxes would not be paid, and prices would fall of course, even to the detriment of the industrious. These are always the consequences of proportional taxes, when wrong imposed.

3^{tio}, As to the expence and oppression in levying them, these inconveniences are, in a great measure, in proportion to the disposition of the people to defraud the public: for when they are fairly paid, and honestly collected, proportional taxes are little more expensive, and infinitely less oppressive than any other. I conclude my chapter by some observations drawn from the practice of different countries, which point out a method of avoiding both the oppression and the expence of levying proportional taxes.

CHAP. VI. All taxes are paid out of the circulating money of a country; consequently, they cannot exceed a certain proportion of that sum. It is not, therefore, from the value of the property, or the quantity of consumption, that any one can form a guess of the probable amount of taxes, so much as from the easy and expeditious circulation, which facilitates alienation and sale.

Were taxes, indeed, paid in kind, they might bear a proportion to fruits and labour; but then they would diminish the fund of subsistence: whereas they now draw a share of that quantity of money which circulates through the hands of every individual.

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The great difference between cumulative and proportional taxes, consists in this. That in the first, he who pays them cannot draw them back in proportion to his industry; in the last, he may: but so far as any one of an industrious class proves idle or extravagant, every proportional tax will affect his daily profits, as every cumulative tax will affect the income of a fund already acquired. This deduction of principles is of great use in imposing taxes; because it points out the method of giving to many cumulative taxes usually imposed on the lower classes, all the advantages of those of the proportional kind.

CHAP. VII. Taxes ought to be imposed for the benefit of the public, not of private people: and while that object is fulfilled, taxes are beneficial in every respect. When they are properly levied, they only abridge unnecessary private expence: when they are properly applied by the state, they advance improvement every where; and those who have fortunes already acquired, will be brought to contribute to the ease of the lower classes.

Thus by the help of cumulative and proportional taxes, rightly imposed, and rightly expended, circulation is greatly increased; industry is advanced; the public good is augmented, not diminished; and the burden of payments becomes so equally proportioned, as not to be felt in any degree sufficient to overbalance the advantages resulting from the general system.

CHAP. VIII. Having said that cumulative taxes affect the income of funds already acquired, I observe, that this income proceeds from moveable or immoveable property. The first of which will constantly avoid the grasp of every statesman who attempts to lay a tax upon it. Cumulative taxes, therefore, if carried to their utmost extent, may absorb the whole income of *immoveable property*; but of that only.

Proportional taxes, again, have been said to affect the superfluity of those who consume the objects of them; consequently, if every thing which is consumed were first to suffer an alienation for money, a proportional tax might be imposed upon it.

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The method, therefore, of carrying proportional taxes to their utmost extent, is, to draw to market every thing consumable; and insensibly to raise the tax upon it, so high as to absorb, as much as possible, the whole superfluity of the consumers.

Taxes being carried to that height, the state will become proprietors of the whole income of the immoveable funds, and the industrious classes alone will augment their wealth, in proportion to their frugality.

From this general principle it appears, that for the establishment of proportional taxes, consumption is requisite, together with alienation; consequently, where alienation takes place without consumption, as in the sale of lands, and other immoveable subjects, a proportional tax cannot be, properly, imposed. And also where consumption takes place without alienation, as when the fruits of the earth are consumed by those who raise them, proportional taxes cannot, with any propriety, be levied. Farther,

As taxes do not bear a proportion to effects, but to circulation, it follows, that they can only be raised, properly, upon alienation by sale. Many examples however may be found of proportional taxes, imposed in different countries, where neither sale or even alienation takes place. These I observe to be the worst kind of proportional taxes, and the most oppressive to those who pay them.

From the principle that taxes are in proportion to circulation, and not in proportion to consumption, we discover the reason why of old they were so difficult to be raised. Consumption then went on as now, in many respects, in proportion to the number of inhabitants; but circulation, that is, alienation by sale, bore no proportion to it.

The effect of every increase in circulation is to swell the amount of taxes; and when they are extensively imposed in a country of industry, the whole currency is thereby made to flow through the coffers of the public, as the blood of the human body flows through the heart, and is by that diffused through every member.

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CHAP. IX. I next examine the consequences of a total abolition of taxes, the better to discover the effects which such an alteration would produce, first, upon the prosperity of the whole community; and next, upon that of the principal classes of inhabitants, which compose it. These I reduce to three.

1^{mo}. Those who administer government, and who are maintained from the amount of taxes.

An abolition of them, with respect to this numerous class, would draw consequences along with it, directly destructive to their interest; and, consequently, prejudicial to that of all the industrious classes who supply their consumption.

2^{do}. With respect to the second class, which I suppose to be composed of the industrious part of the people, I observe, that an abolition of taxes must proportionally imply a diminution of circulation; this would produce a proportional diminution upon alienation; consequently, would interrupt the industry of many, and thereby throw them into a hurtful competition among themselves for subsistence. And as it has been proved, that the industrious classes pay no taxes, as matters stand, providing they be diligent and frugal, they consequently would *gain* nothing, and must *lose* a great deal by the abolition of them.

3^{io}. In the third class I comprehend those whom we have hitherto considered as the opulent and idle consumers. Of this category the proprietors of land form a considerable branch. They, we have said, draw back no part, either of the cumulative or proportional taxes, which affect them; but although they be deprived of that immediate indemnification, competent to the industrious, they reap, in another way, advantages which more than compensate all the burden laid upon them. These proceed from the consequences of that spirit of industry which is diffused over the whole people; in consequence of which, their lands are improved, the produce of them is readily disposed of, and what proves superfluous for domestic consumption meets with a ready market abroad, and thereby supports the value of all productions within the country.

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It may be asked, then, where the burden of taxes falls, since every class of inhabitants seems to gain some advantage by them?

I answer, that they imply no burden when rightly imposed. The augmentation of industry, in consequence of the increase of circulation, provides a fund of well employed time, which, converted into money, is more than sufficient to pay all the taxes not immediately affecting the income of solid property; and the constant improvement of this, in consequence of the former, is more than sufficient to indemnify the land-proprietors.

Taxes, in this light, resemble the expence laid out upon new establishments for improvement; because in their consequences they augment the prosperity and ease of the whole people, not by being levied, but by being properly applied, as is farther explained in the next chapter.

CHAP. X. Here I examine whether taxes be a spur to industry, as some pretend.

The doubt concerning this point has arisen from what daily experience has shewn, that nations become industrious in proportion to the taxes they pay. It is not very evident, that the *payment* of a tax by any person should enable him to discharge it with more facility, unless it be from the profit he reaps in drawing it back from others, with an additional profit to himself. But it is palpable that the amount of taxes being properly *expended* by a state, will increase circulation, and give fresh encouragements to industry of every kind.

I close this chapter with a short representation of the nature of ancient and modern circulation, accompanied with observations upon their respective effects in rendering mankind industrious.

CHAP. XI. Of all cumulative taxes, that laid upon land-property produces the greatest amount, with the least oppression to the contributors. This leads me into a particular inquiry into the nature of the land-tax, as it is established in Great Britain, and in France.

To render a land-tax equal and easily born, the imposition ought to be preceded by a fair valuation of every article of revenue

intended to be taxed, and no other income but that proceeding from an immovable fund of property, ought to be affected by it. From this I am led to disapprove of the method of assessment established in England by the land-tax; and also of blending a tax upon solid property, with an equal imposition upon personal estates, which we have shewn to be of a nature incompatible with cumulative taxation.

The defects of this kind of imposition in France (where it is called the *taille*) are different. There the rents of lands, which are the proper object of every land-tax, are frequently withdrawn from under the influence of it, in consequence of the privileges enjoyed by the higher classes, which are exempted from the *taille*. The consequence is, that the French land-tax falls upon that part of the lower classes who are employed in the cultivation of the soil. From this proceeds a double inconvenience.

If those who cultivate are proprietors, their portions are, commonly, very small, and a land-tax which would be light to a considerable proprietor, is quite intolerable to those who draw little more from their portion than what is necessary for their own subsistence. If those who cultivate are lessees to the more considerable proprietors, the burden falls upon them independently of the land-rent, which ought naturally to bear it.

As a proof that this is a true representation of the matter, I review the Marechal de Vauban's scheme for new modelling the system of French taxation: and from the intolerable oppression which would follow the execution of it, we may judge of the present state of taxes in a nation where that scheme was intended as a considerable alleviation of their burden.

Nothing but the establishment of industry and extensive credit, with a substitution of proportional taxes, instead of the many cumulative ones, imposed on the lower classes in France, can ever produce a facility in paying the considerable impositions laid upon that nation.

CHAP. XII. The most proper method of imposing a land-tax is, without doubt, to confine the imposition to the rent of lands only, and

and to lay it on in proportion to them. But how is it to be expected that ever such a plan can take place in a nation where the proprietors of land govern the state? In France, the power of the King has never been able to establish a tax upon the rent of lands, for any longer duration than that of a foreign war. In a neighbouring nation, it has now been established for the greatest part of a century. Were it there to become perpetual, it might be converted into a new domain; or it might prove a fund for discharging, at once, a very great part of the national debt.

When taxes are imposed, it is of great consequence to establish a right administration of them. The easiest method for a state, is to give them in farm; and this was the general practice every where, on the first establishment of taxes. But here no general rule can be laid down.

Cumulative taxes are better administered by commissioners, than let out in farm. The operation of levying them is simple; but when they are farmed, the lower classes of the people are apt to be oppressed. When farms are properly established, an open management of them is absolutely requisite: from this new improvements naturally arise, which give to the farm almost every advantage of the management by commissioners. This improvement is, to divide the profits upon the farm between the state and the farmers: a plan put in execution in France not many years ago.

No question whatever appears more difficult to resolve, than that of ascertaining the fund out of which taxes ought to be paid. Through the whole course of this inquiry, I have endeavoured to shew, that the real fund of taxes is the money circulating among the inhabitants, either in consequence of sale, or of payments. In order to expose this question in a new light, I have commented upon two passages of Davenant, where he estimates this fund from the quantity of national consumption.

From this he is led to compute the yearly taxable expence of every man in England at 8 *l.* sterling; when perhaps the circulation of money through the hands of many may not be twenty shillings:

lings: whereas, according to my theory, it is these twenty shillings only that can be laid under any taxation whatever.

I thought this method of comparing the result of Davenant's reasoning with mine, might better serve to support the latter than any other I could contrive.

The last question proposed in this chapter is no more than a hint to shew, that a proportional tax, laid upon meat and drink, is the most proper equivalent for a land-tax; because those who purchase their subsistence with money are, according to the principles of the first book, those who consume that part of the fruits of the earth which is equivalent to the land rent. If this be arbitrarily laid under an imposition, by a pound rate, or otherwise, the proper drawback, if any be allowed, should be from a tax laid upon those who consume that part of the earth's produce which belongs to the landlords.

I have now concluded this inquiry, according to the plan I at first proposed. It is the fruit of eighteen years close, though agreeable application; interrupted only by many intervals of bad health, and many strokes of adverse fortune.

It never was, till lately, my intention to offer to the public, during my life, what I had composed purely for my own instruction and amusement. But upon comparing my sentiments in several points with those of the generality of my friends, they have been found so widely different, that I was thought in duty bound to my country, to submit them to the criticism of the public.

To this I have the more willingly submitted, as I thereby shall pursue my first intention in taking my pen; which was, to clear up my ideas on this subject. And since I can now draw no farther knowledge from my own inquiries, I must expect it from the criticisms of those who may think it worth their while to animadvert upon my notions.

F I N I S.

A

The number of grains of fine
in use in
3840 Troy-grains, 4676.35

Table of Coins, reduced to
Paris, Col

English Coins.	}	1 A Guinea by statute
		2 A Crown by statute
		3 A Shilling by statute
		4 A Silver Pound ster
		5 A Gold Pound ster
		6 A Silver Pound ster
		7 A Silver Pound ster
		8 A Gold Pound ster
		9 A Pound sterling at
		10 A Shilling current :
		11 A Guinea in silver,
		12 A Guinea at the pr
		13 A Pound troy, or 1

French Coins.	}	1 A Louis d'or
		2 A Crown of six livr
		3 A Crown of three
		4 A Livre
		5 A Louis d'or, or 2
		6 A Marc of Paris w
		7 A Marc of gold coi
		8 A Marc of silver coi

German Coins.	}	1 A Carolin legal we
		2 A Ducat of the Em
		3 A Florin of Conve
		4 A Dollar of Conve
		5 A Dollar of Excha
		6 A Florin current =
		7 A Carolin in Silver

Dutch Coins.	}	1 A Dutch Ducat
		2 A Florin in silver