

An Inquiry into the Nature and Causes of the Wealth of Nations

Adam Smith

1776

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[Brackets] enclose editorial explanations. Small ·dots· enclose material that has been added, but can be read as though it were part of the original text. Occasional •bullets, and also indenting of passages that are not quotations, are meant as aids to grasping the structure of a sentence or a thought. Every four-point ellipsis indicates the omission of a brief passage that seems to present more difficulty than it is worth. Longer omissions are reported between brackets in normal-sized type. Cross-headings in SMALL CAPITALS that are not in the original are marked by small ·dots·. Each of them announces the start of a new topic; there is often no mark of where that topic ends.

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Glossary

accommodation: Smith often uses this word in a broader sense than we are familiar with, a sense in which someone's 'accommodation' refers to all the comforts and conveniences he enjoys, not merely the place where he lives.

alienation: Selling something to someone outside the family of its present owner.

allodial: 'Pertaining to the absolute ownership of an estate' (OED)

arbitrary: It means 'dependent on individual human decisions'. An 'arbitrary government' is contrasted with one in which the rule of law is absolute.

art: Any practical activity that is governed by rules, involves techniques, requires skill. Also **artificer**.

benefice: Property and/or guaranteed income of a rector or vicar (higher in rank than a curate).

bounty: A handout from the state to the exporter of certain sorts of goods.

cattle: Sometimes used to cover horses, hogs, and sheep as well as bovine livestock. Not deer.

chairmen: Carriers of sedans, hired especially in winter to enable the passenger to avoid walking in water and mud.

contempt: On a few occasions Smith uses 'contempt of x' to mean 'attitude of regarding x as negligible'.

creditable: Respectable, decent.

effectual demand(er): A technical term of Smith's, explained on page 22.

entail: A property is entailed if it must by law remain in the possession of the family that now owns it.

equipage: This imprecise term covers: coach and horses, servants' uniform, elegant cutlery and dishes, and so on.

factory: Replaces Smith's 'manufactory' throughout.

finally paid: A tax is 'finally paid' by the person who pays it with no **retribution**.

generous: Mainly used in today's sense of 'free in giving', but a few times in the older sense of 'noble-minded, magnanimous, rich in positive emotions' etc.

genius: Aptitude for a particular activity.

income, revenue: In this version, private individuals have incomes; Smith usually says that they have revenues.

industry: Work, e.g. the work of a farm labourer.

journeyman: In Smith's usage, a skilled worker who is available to be hired but is not anyone's permanent fixed-wage employee, and is paid according to output rather than time.

magistrate: In this work a 'magistrate' is anyone with an official role in the enforcement of law; on page 180 the emperor Augustus is referred to as 'the magistrate'.

manufacturer: Smith quite often uses this in something like our sense, though he often expresses that with the phrase 'master manufacturer'. Sometimes the undecorated noun is used to refer to anyone who *works in* manufacturing; there is a striking example of this on page 107.

meanest: Lowest on the social scale.

money: When Smith mentions particular sums of money in the terminology of 'pounds', 'shillings' and 'pence', those words are usually replaced by the conventional symbols, so that for example '£13/6/8d' means 'thirteen pounds six

shillings and eightpence'; '6/-' means 'six shillings'; '8d' means 'eightpence'.

parish: A town or village or neighbourhood that has its own church. To 'come on the parish' = 'to live in a workhouse, at public expense', always in wretched conditions.

pecuniary: Having to do with money; a worker's 'pecuniary wages' are what he is paid in cash for his work.

perfect liberty: Smith regularly uses this phrase, as he explains on page 22, to mean 'being free, so far as the law is concerned, to practise any trade you choose'.

perpetuities: Legal arrangements under which estates can never be sold or given away.

prince: In this work *prince* isn't a title and doesn't designate a rank; it stands for any ruler of a state, whether a king or queen or duke or count etc.

principle: Smith often uses this word in a sense, once common but now obsolete, in which 'principle' means 'source', 'cause', 'driver', 'energiser', or the like.

prodigal: Unwisely free in spending; 'the prodigal son' does *not* mean 'the son who left home and then returned' but 'the son who foolishly squandered all his money'.

projector: Someone who tries to start a new enterprise. On pages 117 and 123 there are strong suggestions of 'someone who rashly or foolishly tries' etc.

rent certain: A rent stated as a fixed amount of money per month, year, etc., rather than as a fixed proportion of some variable quantity such as profitability of land.

retribution: Sometimes used in the now obsolete sense of 'recompense' or 'repayment'. The word is left untouched in this version in case Smith means by it something more special than that. See also **finally paid**.

revolution: The revolution Smith refers to on page 251 and a few other places is the sequence of events in 1688 in which James II (Roman catholic) was replaced by the Dutch William and Mary of Orange (protestant) as joint sovereigns of England.

rude: As applied to societies: primitive. As applied to products such as metals and grains: unprocessed.

save-all: 'a means of preventing loss or waste' (OED).

science: In early modern times this word applied to any body of knowledge or theory that is (perhaps) axiomatised and (certainly) conceptually highly organised. Smith's use of the word seems looser than that, but you may have to interpret individual occurrences on the basis of their context.

station: social status.

sumptuary law: Law setting limits on how much individuals may spend.

theory: This is nearly always a replacement for Smith's 'system'. The work contains the phrase 'theories of political economy' (once) and 'systems of political economy' (many times), and it's clear that for Smith the phrases are synonymous.

tolerable: reasonable, allowable, fairly acceptable.

undertaker: In Smith's usage, the 'undertaker' of a project is the entrepreneur who launches and risks his capital in it.

united kingdom: In Smith's day this phrase applied to the combination of England (including Wales) and Scotland. Only in 1801 did 'the United Kingdom' become an official name for those two plus Ireland.

workshop: This word is used throughout to replace 'work-house', to avoid the distracting suggestion of 'poorhouse'.

Book V

The revenue of the sovereign or commonwealth

Chapter 1: Expenses of the sovereign or commonwealth

Part 1. The expense of defence

The sovereign's first duty, protecting the society from the violence and invasion of other independent societies, can be performed only by military force. The cost of preparing this military force in time of peace and employing it in time of war is very different in the different states of society, i.e. in the different periods of improvement.

Among nations of hunters, the lowest and rudest state of society, like the native tribes of North America, every man is a warrior as well as a hunter. When he goes to war to defend his society or get revenge for harm done to it by other societies, he maintains himself by his own labour just as when he lives at home. His society is at no sort of expense to prepare him for the field or to maintain him while he is in it. (I say 'his *society*' because for in this state of things there is no sovereign or commonwealth properly so-called.)

Among nations of shepherds, a more advanced state of society such as we find among the Tatars and Arabs, every man is in the same way a warrior. Such nations have commonly no fixed habitation, but live in tents or in covered waggons that are easily transported from place to place. The whole tribe (i.e. nation) changes its location according to the different seasons of the year as well as according to other events. When its herds and flocks have consumed the forage of one part of the country it moves to another, and from that to a third. In the dry season it comes down to the banks

of the rivers; in the wet season it withdraws to the upper country. When such a nation goes to war, the warriors will not trust their herds and flocks to the feeble defence of their old men, women and children; and their old men, women and children will not be left behind without defence and without subsistence. Also, because the whole nation is accustomed to a wandering life even in time of peace, it easily takes the field in time of war. Whether it marches as an army or moves around as a company of herdsmen, the way of life is nearly the same though the aim is very different. So they all go to war together, and everyone does as well as he or she can. Among the Tatars even the women have been known to often engage in battle. If they conquer, whatever belongs to the hostile tribe is the recompense of the victory; but if they are defeated all is lost—not only their herds and flocks but their women and children become the booty of the conqueror. Most of those who survive the battle are obliged to submit to him for the sake of immediate subsistence. The rest are usually dispersed in the desert.

The ordinary life, the ordinary exercise, of a Tatar or Arab prepares him sufficiently for war. Running, wrestling, cudgel-playing, throwing the javelin, drawing the bow, etc. are the common pastimes of those who live in the open air, and are all of them the images of war. When a Tatar or Arab actually goes to war, he is maintained by his own herds and flocks, which he carries with him in the same way as in peace. His chief or sovereign (for those nations do all have chiefs or sovereigns) is at no expense in preparing him for the field; and when he is in it the only pay he expects or requires is the chance of plunder.

An army of hunters can seldom exceed 300 men. The precarious subsistence that the chase provides could seldom allow more than that to keep together for any considerable time. An army of shepherds, on the other hand, can sometimes amount to 300,000. As long as nothing stops their progress—as long as they can go on from one district whose forage they have consumed to another that hasn't yet been eaten out—there seems to be hardly any limit to how many can march together. A nation of hunters can never be formidable to the civilised nations in their neighbourhood; a nation of shepherds can. Nothing can be more contemptible [here = 'negligible'] than an Indian war in North America; whereas nothing can be more dreadful than Tatar invasions have often been in Asia. Thucydides' judgment that both Europe and Asia could not resist the united Scythians has been verified by the experience of all ages. The inhabitants of the extensive but defenceless plains of Scythia or Tartary have been often united under the dominion of the chief of some conquering horde or clan; and the havoc and devastation of Asia have always signalised their union. The inhabitants of the inhospitable deserts of Arabia—the other large nation of shepherds—have only once been united, namely under Mahomet and his immediate successors. Their union, which owed more to religious fanaticism than to conquest, was signalised in the same way. If the hunting nations of America ever became shepherds, having them as neighbours would be much more dangerous to the European colonies than it is at present.

[Smith now writes about how agricultural nations go to war, with all the young men serving as soldiers except at times of seeding and harvest, when some have to return to the farms. This was the pattern in ancient Greece and Rome; it did not involve the whole nation in any particular war-related expense.]

In a more advanced state of society, two causes help to make it impossible for those who take the field to maintain themselves at their own expense: **(a)** the progress of manufactures, and **(b)** improvements in the art of war.

The moment an artificer. . . leaves his workshop, the sole source of his income is completely dried up. Nature does nothing for him (as it does for the farmer while he is away at war); he does everything for himself. Thus, when he takes the field in defence of the public, he must be maintained by the public. . . .

When the art of war has gradually become a very intricate and complicated science; when the outcome of a war comes to be determined not (as in the first ages of society) by a single battle but by a contest that is spun out through several campaigns each of which lasts for most of a year; it becomes necessary that the public should maintain those who serve the public in war, at least while they are employed in that service. Whatever the ordinary peacetime occupation of those who go to war, such a tedious and expensive service would be far too heavy a burden on them ·if they were not maintained by the public·. [He mentions the ancient Athenian armies' use of mercenaries, some of them foreigners, and the payment of soldiers by ancient Rome and the post-Rome feudal governments.]

The proportion of the population who can go to war is much smaller in a civilised state of society than in a rude one. In a civilised society, the soldiers are maintained entirely by the labour of those who are not soldiers; so the number of soldiers can never exceed what the civilians can maintain along with their other obligations to maintain themselves and the non-military officers of government and law. In the little agrarian states of ancient Greece, about one fifth of the population regarded themselves as soldiers, and are said sometimes to have taken the field. Among the civilised

nations of modern Europe, it is commonly reckoned that not more than the 1% of the inhabitants of any country can be employed as soldiers, without ruin to the country that pays the expense of their service. . . .

The art of war is certainly the noblest of all arts and in the progress of improvement it inevitably becomes one of the most complicated of them. [This, Smith says, means that it cannot be carried out without a great deal of training, and it won't be in the interests of individual citizens to get that training unless the government somehow steers them towards it, Thus:]

There seem to be only two ways in which the state can make any tolerable provision for the public defence.

(a) In spite of the whole bent of the interests, genius [see Glossary], and inclinations of the people, it can rigorously *enforce* the practice of military exercises, and require all the citizens of military age, or a certain number of them, to take some part in the trade of a soldier, whatever other trade or profession they have.

(b) By maintaining and employing a certain number of citizens in the constant practice of military exercises, it can make the trade of a soldier a particular trade, separate and distinct from all others.

If the state has recourse to **(a)** its military force is said to consist in a **militia**; if to the second it is said to consist in a **standing army**. The practice of military exercises is the sole or principal occupation of the soldiers of a standing army, and the maintenance or pay the state provides them is the principal and ordinary fund of their subsistence. The practice of military exercises is only the occasional occupation of the soldiers of a militia, and they get the principal and ordinary fund of their subsistence from some other occupation. In a militia, the character of the labourer, artificer, or tradesman, predominates over that of the soldier; in a standing army,

that of the soldier predominates over every other character; and this seems to constitute the essential difference between those two kinds of military force.

[Smith now begins about seven pages of military history, concerning the successes and failures of the two sorts of armies down the centuries, and their comparative contributions to political stability in different kinds of state. He does not try to connect any of this with issues about 'the wealth of nations'.]

Men of republican principles have regarded a standing army as dangerous to liberty. It certainly is so when the interests of the army's general and principal officers are not necessarily connected with the support of the constitution of the state. The standing army of Caesar destroyed the Roman republic. The standing army of Cromwell turned the 'long parliament' out of doors. But where the sovereign is himself the general, and the chief nobility and gentry of the country are the army's principal officers, the military force is under the command of men who have the greatest interest in supporting the civil authority because *they* have the greatest share of it; and in such a situation a standing army can never be dangerous to liberty. On the contrary, it may sometimes be favourable to liberty. The security it gives to the sovereign makes unnecessary the troublesome jealousy which in some modern republics seems to watch over the minutest actions, and to be always ready to disturb the peace of every citizen. If the security of the magistrate, though supported by the principal people of the country, is endangered by every popular discontent; if a small tumult can within a few hours bring about a great revolution; the government's whole authority must be employed to suppress and punish every murmur and complaint against it. On the other hand, the rudest, most groundless, and most licentious protests cannot much disturb a sovereign who

feels himself supported not only by the country's natural aristocracy but also by a well-regulated standing army. He can safely pardon or neglect them, and his sense of his own superiority naturally disposes him to do so. . . .

So the sovereign's first duty, namely to defend the society from the violence and injustice of other independent societies, grows gradually more and more expensive as the society advances in civilisation. The military force of the society, which originally cost the sovereign no expense in time of peace or in time of war, must in the progress of improvement first be maintained by him in time of war, and afterwards even in time of peace.

The change introduced into the art of war by the invention of fire-arms has increased still further the expense of •exercising and disciplining any number of soldiers in peacetime and •of employing them in time of war. Their arms and their ammunition become more expensive. . . . The cannon and the mortar are not only much more expensive than the balista or catapulta, but also much heavier; so they involve more expense not only to prepare them for battle but to carry them to it. . . . And it has become much more difficult, and consequently much more expensive, to fortify a town against the attack of artillery. . . .

In modern war, the great expense of firearms gives an obvious advantage to the nation that can best afford it; and consequently to an affluent and civilised nation over a poor and barbarous one. In ancient times, the affluent and civilised found it hard to defend themselves against the poor and barbarous nations. In modern times, the poor and barbarous find it difficult to defend themselves against the affluent and civilised. The invention of fire-arms, an invention which at first sight appears to be so pernicious, is certainly favourable to the permanency and to the extension of civilisation.

Part 2. The expense of justice

The sovereign's second duty—protecting as far as possible every member of the society from the injustice or oppression of every other member of it, i.e. establishing an exact administration of justice—requires two very different degrees of expense in the different periods of society.

Among nations of hunters, where there no property that exceeds the value of two or three days labour, there is seldom any established magistrate or any regular administration of justice. Men who have no property can harm one another only in their persons or their reputations. When one man kills, wounds, beats, or defames another, the victim suffers but the aggressor gets no benefit. It is otherwise with the injuries to property. The benefit of the person who does the injury is often equal to the loss of him who suffers it. The only passions that can prompt one man to injure another in his person or reputation are envy, malice, or resentment. But most men are seldom under the influence of those passions, and even the very worst men are so only occasionally. Also, their gratification, however agreeable it may be to certain characters, does not bring any real or permanent advantage; so in most men it is commonly restrained by prudential considerations. Men can live together in society with some tolerable degree of security even if there is no civil magistrate to protect them from the injustice of envy, malice, and resentment. But avarice and ambition in the rich, in the poor the hatred of labour and the love of present ease and enjoyment, are passions that prompt men to invade property; they are much steadier in their operation and much more universal in their influence •than those other three•. Wherever there is a great property, there is great inequality. For one very rich man, there must be at least five hundred poor, and the affluence of the few presupposes the poverty of the many.

The affluence of the rich arouses the indignation of the poor, who are often •driven by want and •prompted by envy to invade his possessions. It is only under the shelter of the civil magistrate that the owner of that valuable property, which is acquired by the labour of many years or perhaps of many successive generations, can sleep a single night in security. He is always surrounded by unknown enemies whom he can never appease (though he never provoked them), and from whose injustice he can be protected only by the powerful arm of the civil magistrate, continually held up to chastise it. Thus the acquisition of valuable and extensive property necessarily requires the establishment of civil government. Where there is no property, or at least none that exceeds the value of two or three days labour, civil government is not so necessary.

Civil government presupposes a certain subordination. But just as the needs for civil government gradually grows up with the acquisition of valuable property, so the principal causes that naturally introduce subordination gradually grow up with the growth of that valuable property. The causes or circumstances that naturally introduce subordination—i.e. that naturally and antecedent to any civil institution give some men some superiority over most of their brethren—seem to be four in number.

[Smith goes through them in more detail than we need. They are superiority in **(i)** excellence of body, mind and morality, in **(ii)** age, in **(iii)** wealth, and in **(iv)** birth. The mental side of **(i)** is more important than the physical side, but those are 'invisible qualities' and no society has let them into its rules of subordination. After some discussion of the others, he concludes:]

Birth and fortune are evidently the two circumstances that principally set one man above another. They are the two great sources of personal distinction and therefore the

principal causes that naturally establish authority and subordination among men. Among nations of shepherds, both those causes operate with their full force. [He writes about how 'in the age of shepherds' a very wealthy person with an 'illustrious family' is naturally looked up to by others, becomes a leader in war, and a judge in peace. People with lesser herds than his support his possessions because they think this helps to protect theirs. Smith sums up the situation thus:] They constitute a sort of little nobility, who feel themselves interested to defend the property and support the authority of their own little sovereign, so that he can defend their property and support their authority. Civil government, so far as it is instituted for the security of property, is really instituted for the defence of the rich against the poor, or of those who have some property against those who have none at all.

The judicial authority of such a sovereign was for a long time a source not of expense but of revenue to him. The persons who applied to him for justice were always willing to pay for it, and a petition was always accompanied by a present. And after the sovereign's authority was thoroughly established, the person found guilty had to pay a fine to the sovereign in addition to the satisfaction he had to make to the party he had harmed. He had given trouble, he had disturbed, he had broken the peace of his lord the king, and for those offences a fine was thought due. In the Tatar governments of Asia, in the governments of Europe that were founded by the German and Scythian nations who overturned the Roman empire, the administration of justice was a considerable source of revenue to the sovereign and also to all the lesser chiefs or lords who exercised, under him, jurisdiction over some tribe or clan, or over some territory or district. Eventually the sovereign and the lower chiefs found it convenient to delegate this jurisdiction to some substitute,

who was obliged to account to his principal for the profits of the jurisdiction. . . . In England the judges of the circuit in the time of Henry II were a sort of itinerant factors, sent around the country to levy certain branches of the king's revenue. In those days, the procuring of revenue seems to have been one of the principal advantages the sovereign proposed to obtain by the administration of justice.

This scheme of making the administration of justice subservient to the purposes of revenue was bound to produce gross abuses. •The person who applied for justice with a large present in his hand was likely to get something more than justice; while he who applied for it with a small one was likely to get something less. •Justice might be delayed so that this present could be repeated. •The fine for a guilty person might suggest a strong reason for finding him guilty even when he had not really been so. The ancient history of every country in Europe bears witness that such abuses were quite common.

[Smith writes at some length about the history of this matter. Then:] When the increasing expense of defending the nation against the invasion of other nations (and some other causes) made the sovereign's private estate altogether insufficient for defraying the expense of the sovereignty, it became necessary that the people should for their own security contribute towards this expense by taxes. It seems then to have been commonly stipulated that no present for the administration of justice should under any pretence be accepted by the sovereign or by his bailiffs and substitutes, the judges. It seems to have been thought that those presents could more easily be abolished than effectively regulated and ascertained. Fixed salaries were appointed for the judges, which were supposed to compensate them for the loss of whatever might have been *their* share of the former revenue from justice; just as the taxes more than compensated the

sovereign for the loss of *his*. Justice was then said to be administered *gratis*.

Justice, however, was really never administered gratis in any country. Lawyers and attorneys, at least, must always be paid by the parties to any law-suit; if they were not, they would perform their duty still worse than they actually perform it. In every court the fees annually paid to lawyers and attorneys amount to a much greater sum than the salaries of the judges. The fact that those salaries are paid by the crown can nowhere much diminish the necessary expense of a law-suit. But the reason the judges were prohibited from receiving my present or fee from the parties was not so much to diminish the expense as to prevent the corruption of justice.

The office of judge is in itself so very honourable that men are willing to accept it although the pay for it is very small. The lower office of justice of peace, though it involves a good deal of trouble and in most cases no pay at all, is an object of ambition to most of our country gentlemen. The. . . whole expense of the administration and execution of justice, even where it is not managed well, makes a very inconsiderable part of the whole expense of government in any civilised country.

[Smith then discusses through several pages various ways in which the administration of justice might be made to pay for itself 'without any real hazard of corruption', thus saving the government even that 'very inconsiderable' expense. He cites different attempts that have been made to do this, and estimates their success. From that he moves on to the topic of the separation of the judicial system from the rest of government.]

The separation of the judicial from the executive power seems originally to have arisen from the increasing business of the society as a result of its increasing improvement. The

administration of justice became so laborious and complicated as to require the undivided attention of the person to whom it was entrusted. Because the person entrusted with the executive power did not have leisure to attend to the decision of private causes himself, a deputy was appointed to decide them in his place. In the progress of the Roman greatness, the consul was too much occupied with the political affairs of the state to attend to the administration of justice, so a praetor was appointed to administer it for him. In the progress of the European monarchies, which were founded on the ruins of the Roman empire, the sovereigns and the great lords all came to consider the administration of justice as an office too laborious and too ignoble for them to execute themselves; so they all rid themselves of it by appointing a deputy, bailiff or judge.

When the judicial power is united to the executive power, it is hardly possible for justice not to be often sacrificed to what is vulgarly called 'politics'. The persons entrusted with the great interests of the state may, even without any corrupt views, sometimes think it necessary to sacrifice to those interests the rights of a private man. But the liberty of every individual, the sense he has of his own security, depends on the impartial administration of justice. To make every individual feel himself perfectly secure in the possession of every right that belongs to him, it is necessary that the judicial should be not only **separated from** the executive power but as much as possible **independent** of that power. The judge should not be liable to be removed from his office according to the caprice of that power. The regular payment of his salary should not depend on the good will of that power or even on its good economy.

Part 3. The expense of public works and public institutions

The third and last duty of the sovereign or commonwealth is that of erecting and maintaining public institutions and public works which, though they may be in the highest degree advantageous to a great society, . . . no individual or small number of individuals could be expected to erect or maintain. Performing this duty also requires different levels of expense in the different periods of society. After the two kinds I have already mentioned—institutions and works necessary for the defence of the society and the administration of justice—the other public works and institutions are chiefly for **(a)** facilitating the commerce of the society, **(b)** promoting education of the youth, and **(c)** promoting the instruction of people of all ages. I shall discuss how the expense of those sorts of public works and institutions may be most properly defrayed in three sections.

Section (a): Public works and institutions for facilitating the commerce of the society, starting with ones that are necessary for facilitating commerce in general. . .

. . . The expense of making and maintaining the public roads of a country obviously must increase with the annual product of the country's land and labour, i.e. with the quantity and weight of the goods it is necessary to carry on those roads. The strength of a bridge must be suited to the number and weight of the carriages likely to pass over it; the depth and the supply of water for a navigable canal to the number and tonnage of the barges likely to carry goods on it; the extent of a harbour to the number of ships likely to take shelter in it.

It does not seem necessary that the expense of those public works should be defrayed from the so-called 'public revenue' the collection and application of which are in most

countries assigned to the executive power. Most of such public works can easily be managed so that they provide enough revenue to defray their own expense without bringing any burden on the general revenue of the society.

A highway, a bridge, a navigable canal can usually be made and maintained by a small toll on the carriages that use them; a harbour by a moderate port-duty on the tonnage of the ships that load or unload in it. (Two other institutions for facilitating commerce in many countries defray their own expense *and* provide a revenue for the sovereign—the coinage and the post-office.) When the carriages that pass over a highway or a bridge and the barges that sail on a navigable canal pay toll in proportion to their weight, they are paying for the maintenance of those public works exactly in proportion to the wear and tear they inflict on them. It seems hardly possible to invent a fairer way of maintaining such works. This tax or toll. . . .is finally [see Glossary] paid by the consumer, to whom it must always be charged in the price of the goods; but. . . .the price is not •raised by the toll as much as it is •lowered by the cheapness of the carriage. . . . When the toll on carriages of luxury, coaches, post-chaises etc. is made somewhat higher in proportion to their weight than on carriages of necessary use such as carts, waggons etc. the indolence and vanity of the rich is made to contribute in a very easy manner to the relief of the poor. . . .

[Smith condemns the building of infrastructure that the relevant commerce can't pay for, to satisfy the vanity or convenience of some powerful person. He goes on to report that in some countries the tolls on canals are owned by private individuals who are thereby motivated to keep the canals in good order, which they might not be if control were in the hands of 'commissioners'. He gives a striking example: The canal of Languedoc cost public revenue about £900,000, and it was found that the best method of keeping

it in good shape 'was to make a present of the tolls to Riquet, the engineer who planned and conducted the work'.]

The tolls for the maintenance of a high road cannot safely be made the property of private persons. A high-road, though entirely neglected, does not become altogether impassable as a canal does. So the proprietors of the tolls on a high-road might entirely neglect the repair of the road while still levying nearly the same tolls. It is proper, therefore, that the tolls for the maintenance of such a work should be put under the management of commissioners or trustees.

The abuses that the trustees have committed in the management of those tolls in Great Britain have been justly complained of. [He goes into details, saying that this system is very new and there hasn't yet been enough time to establish 'proper courts of inspection and account' to ensure that tolls are not too high and that they are genuinely spent on road-maintenance. From this he moves on to the idea that road-tolls might become a considerable source of revenue to help meet 'the exigencies of the state'. He has three objections to this:]

First, If the tolls levied at turnpikes were ever considered as one of the resources for meeting the exigencies of the state, they would certainly be increased as those exigencies were supposed to require. . . . The upshot would be that the turnpike tolls, instead of facilitating the country's inland commerce, would soon become a great burden on it. The expense of transporting all heavy goods would soon be so much increased, and the market for them thus so much narrowed, that their production would be considerably discouraged and the most important branches of the country's domestic industry annihilated altogether.

Secondly, A tax on carriages in proportion to their weight, though fair when the tax is applied to the sole purpose of repairing the roads, is very unfair when applied to any other

purpose or to supply the common exigencies of the state. . . . The turnpike toll raises the price of goods in proportion to their weight and not to their value, so it is chiefly paid by the consumers of coarse and bulky commodities, not by those of precious and light ones. Thus, any exigency of the state that this tax might be intended to meet would be chiefly met at the expense of the poor, not of the rich. . . .

Thirdly, If government at any time neglected the maintenance of the high-roads, it would be even harder than it is now to *compel* the proper application of any part of the turnpike tolls. . . .

[Smith now devotes about three pages to describing how these things are managed in some other countries, especially France and China. He has much to say about how the vanity of rulers has an interest in magnificent high-roads but not in efficient cross-roads, and how this shows in the roads of France. Things seem better in China, he says, but it is hard to be sure because so many of the reports from there are by 'weak and wondering travellers or by stupid and lying missionaries'.]

Even public works that cannot provide any revenue for maintaining themselves, but the convenience of which is nearly confined to some particular place or district, are always better maintained by •a local or provincial revenue under the management of a local and provincial administration than by •the general revenue of the state that must always be managed by the executive power. If the streets of London were to be lighted and paved at the expense of the treasury, is it likely that they would be so well—or even so inexpensively—lighted and paved as they are at present? Also, it would be unfair to pay for this by a tax on all the inhabitants of the kingdom, most of whom derive no benefit from the lighting and paving of the streets of London. . . .

. . . and then ones that are necessary for facilitating particular branches of commerce

To facilitate some particular branches of commerce particular institutions are necessary, and these involve their own expenses.

Some branches of commerce that are carried on with barbarous and uncivilised nations require special protection. The goods of the merchants who trade to the western coast of Africa can be defended from the barbarous natives only if the place where they are deposited is somewhat fortified. The disorders in the government of Indostan were supposed to render a similar precaution necessary, even among that mild and gentle people; and it was under the pretence of securing persons and property from violence that the English and French East India companies were allowed to erect the first forts they had in that country. Among other nations whose governments will not allow strangers to have forts within their territory, it may be necessary to maintain an ambassador. . . .who can •settle disagreements among his own countrymen and •interfere in their disputes with the natives with more authority, and provide them a more powerful protection, than they could expect from any private man. [He goes on to say that the practice of having permanent representatives in foreign countries is only about 300 years old, and has grown along with the growth of international commerce.]

[Smith argues that it is reasonable for the costs of the protection of a country's goods when they are sent in trade to another country to be met by customs that are handled by the executive power. However:] In most of the commercial states of Europe particular companies of merchants have had the skill to persuade the legislature to entrust to them •the performance of this part of the duty of the sovereign and with •all the powers necessarily connected with it.

These companies, though they may have been useful for the first introduction of some branches of commerce by making at their own expense an experiment that the state might not think it prudent to make, have *all* in the long run proved to be burdensome or useless, and have mismanaged or confined the trade.

[Smith devotes about 20 exhaustive and exhausting pages to details about this. The account distinguishes three kinds of such companies: joint-stock companies, regulated companies, and private copartneries. Their various pluses and minuses are sorted out, and they are traced through their histories in various countries, the most distressing part of the tale being the conduct of the East India Company, despite one small thing it did 'during a momentary fit of good conduct'. Here are two short excerpts:]

... With the •right of possessing forts and garrisons in distant and barbarous countries is necessarily connected the •right of making peace and war in those countries. The joint-stock companies that have had the one right have constantly exercised the other, and have often had it expressly conferred on them. How unjustly, capriciously, and cruelly they have commonly exercised it is too well known from recent experience. . . .

... No two characters seem more inconsistent than those of trader and sovereign. If the trading spirit of the English East India company makes them bad sovereigns, the spirit of sovereignty seems to have made them equally bad traders. While they were only traders they managed their trade successfully and could pay from their profits a moderate dividend to the proprietors of their stock. Since they became sovereigns, with a revenue that is said to have originally been more than £3,000,000, they have had to beg for the ordinary assistance of government in order to avoid immediate bankruptcy. In their former situation, their servants

in India regarded themselves as the clerks of merchants; in their present situation those servants regard themselves as the ministers of sovereigns. . . .

Section (b): The expense of the institution for the education of youth.

[For the 'b' of this section, see page 206.] The institutions for the education of the youth can also provide a revenue sufficient for defraying their own expense. The fee that the scholar pays to the master naturally constitutes a revenue of this kind.

Even when the master's reward does not arise entirely from this natural revenue, it still need not be derived from the general revenue of the society. . . . Through most of Europe the endowment of schools and colleges makes little or no charge on the general revenue, and arises chiefly from

- some local or provincial revenue,
- the rent of some landed estate, or
- the interest of some sum of money, allotted and put under the management of trustees for this purpose by the sovereign himself or by some private donor.

Have those public endowments generally helped to promote the goal of their institution? Have they helped to encourage the diligence and improve the abilities of the teachers? Have they directed the course of education towards objects more useful—to the individual and to the public—than those to which it would naturally have gone of its own accord? It should not be hard to give at least a probable answer to each of those questions.

In every profession the exertion of most of those who exercise it is proportional to their *need* to make that exertion. This need is greatest for those to whom the income of their profession is the only source from which they expect their fortune or even their ordinary income and subsistence.

To get this fortune, or even to get this subsistence, they must in the course of a year do a certain amount of work of a known value; and where the competition is free the rivalry of competitors who are all trying to jostle one another out of employment forces every man to try to carry out his work with a certain degree of exactness. . . .

The endowments of schools and colleges have inevitably diminished somewhat the need for application in the teachers. Insofar as their subsistence arises from their salaries, it obviously comes from a fund that is entirely independent of their success and reputation in their particular professions.

In some universities the salary is only a part (often a small one) of the teacher's income, most of which arises from the fees of his pupils; but even in this case the need for application is not entirely taken away. Reputation in his profession is still of some importance to the teachers, and he still has some dependence on the affection, gratitude, and favourable report of those who have had instruction from him; and the best way for him to attract these favourable sentiments is to deserve them by the abilities and diligence with which he discharges every part of his duty.

In other universities, the teacher is prohibited from receiving any fee from his pupils, and his salary is the only income he derives from his office. In this situation his interests are as directly opposed to his duty as they could possibly be. It is the interest of every man to live as much at his ease as he can; and if his rewards are to be precisely the same whether or not he performs some laborious duty, it is certainly his interest—at least as 'interest' is commonly understood—either to neglect this duty altogether or, if he is subject to some authority that will not allow that, to perform it in as careless and slovenly a manner as that authority will permit. If he is naturally active and a lover of labour, it is his interest to employ that activity in any way from which

he can derive some advantage rather than in doing his duty, from which he can derive none.

If the authority to which he is subject resides in the college or university of which he is a member, and in which most of the other members are also persons who are or ought to be teachers, they are likely to make a common cause, to be very indulgent to one another, with every man consenting to his neighbour's neglecting his duty provided that *he* himself is allowed to neglect his own. For these many years most of the public professors in the university of Oxford have given up even pretending to teach.

If the authority to which he is subject resides not in the body of which he is a member but in some other persons—bishop, provincial governor, minister of state—he will probably not be allowed to neglect his duty altogether. But all that such superiors can force him to do is to give a certain number of lectures in the week, or in the year; and what those lectures are like must still depend on the teacher's diligence, which is likely to be proportioned to the motives he has for exerting it. [Smith goes on to say that quality-control from the outside is apt to be very poor: the officials exercising it are often slack, lazy, ignorant about the materials being taught, and about what happens in the classroom. On this topic he sums up:] Anyone who has looked for long at the administration of a French university must have noticed the effects that naturally result from an arbitrary and extraneous jurisdiction of this kind.

[Smith writes at some length about ways in which attendance at some college or university can be compulsory for some students, e.g. ones who want 'the privileges of graduates in arts, in law, medicine, and divinity', or ones relying on some charity. Such compulsoriness reduces the pressure on teachers to do their work well.]

If the teacher happens to be a man of sense, it must

be unpleasant for him to be aware, while lecturing to his students, that he is speaking or reading nonsense or near-nonsense. It must also be unpleasant for him to observe that most of his students desert his lectures, or attend them with clear signs of neglect, contempt, and derision. So if he is obliged to give a certain number of lectures, these motives might dispose him to take some pains to give tolerably good ones. But there are devices he can use to blunt the edge of those incitements to diligence. Instead of explaining to his pupils the science in which he proposes to instruct them, the teacher may •read some book on it written in a foreign and dead language, and interpret it to them into their own language; or—still more easily—•make them interpret it to him, now and then making a remark on it and flattering himself that he is giving a lecture. The slightest degree of knowledge and application will enable him to do this, without exposing himself to contempt or derision by saying anything really ridiculous. And the discipline of the college may enable him to force all his pupils to attend his sham lectures regularly, and to maintain decent and respectful behaviour throughout each performance.

The discipline of colleges and universities is in general designed not for the benefit of the students but for the ease of the masters. [Smith enlarges on this at some length, and then moves on through a long discussion of which the following are some of the main points. •There should be no need for compulsion in the education of pupils over the age of about 13; if the teaching is decently done, the young will be eager to absorb it. •Teaching is better outside public institutions, e.g. in private schools for fencing, dancing, riding. •In England public schools are 'less corrupted' than universities, partly because there nothing forcing any students to attend a particular school.]

[Smith now embarks on several pages on the history of

education in Christian Europe, especially the place in it of theology and the Latin, Greek, and Hebrew languages. This then flows on into a history of ancient Greek philosophy, with its triad physics/ethics/logic, and of the further development of this in succeeding centuries. His summing up on this is memorable:] The alterations that the universities of Europe thus introduced into the ancient course of philosophy were meant for the education of ecclesiastics, making it a better introduction to the study of theology. But the additional quantity of subtlety and sophistry, the casuistry and ascetic morality that those alterations introduced into it, certainly did not make it better for the education of gentlemen or men of the world, or more likely to improve the understanding or to mend the heart.

•WAITING FOR THE YOUNG TO GROW UP•

Though the public schools and universities of Europe were originally intended only for the education of churchmen, and though they were not always very diligent in instructing their pupils even in the sciences that were supposed necessary for that profession, yet they gradually drew to themselves the education of almost all other people, particularly of almost all gentlemen and men of fortune. No better method, it seems, could be found for spending with any advantage the long interval between infancy and the period of life when men begin to apply themselves in good earnest to the real business of the world, the business that will employ them for the rest of their days. Most of what is taught in schools and universities, however, does not seem to be the most proper preparation for that business.

In England it is increasingly the custom to send young people to travel in foreign countries immediately on their leaving school, without sending them to any university. This is said:

Our young people generally return home much improved by their travels. A young man who goes abroad at 17 or 18 and returns home at 21 returns three or four years older than he was when he went abroad; and at that age it is hard not to improve a good deal in three or four years. In the course of his travels he generally acquires some knowledge of one or two foreign languages. . .

. . . a knowledge, however, that is seldom sufficient to enable him to speak or write them properly. In other ways he commonly returns home more conceited, more unprincipled, more dissipated, and more incapable of serious application to study or to business than he could have become in such a short time if he had stayed at home. By travelling when so young, by spending in frivolous dissipation the most precious years of his life at a distance from the inspection and control of his parents and relations, every useful habit that the earlier parts of his education might have tended to form in him is almost inevitably weakened or effaced instead of being riveted and confirmed. Nothing but the discredit that the universities are allowing themselves to fall into could ever have brought into repute such an absurd practice as that of travelling at this early period of life. By sending his son abroad, a father spares himself for a while time from the disagreeable sight of a son unemployed, neglected, and going to ruin before his eyes—i.e. a son at an English university.

Such have been the effects of some of the modern institutions for education. Different plans and different institutions for education seem to have taken place in other ages and nations. [This leads into several pages of description of educational methods in ancient Greece and Rome. One episode in this connects with what Smith has been saying about the economic basis for the low quality of English universities:]

Masters were found, it seems, for instructing the better sort of people among those nations in every art and science that the circumstances of their society made it necessary or convenient for them to be instructed in. The demand for such instruction produced what it always produces, namely the talent for giving it; and the effort at improvement that unrestrained competition never fails to arouse seems to have brought that talent to a very high degree of perfection.

In the attention the ancient philosophers aroused, in the domination they acquired over their hearers' opinions and principles, in their ability to give a certain tone and character to the conduct and conversation of those hearers, they appear to have been much superior to any modern teachers. In modern times, the diligence of public teachers is more or less corrupted by the circumstances which make them more or less independent of their success and reputation in their particular professions. And their salaries put any private teacher who would like to compete with them in the same situation as a merchant who tries to trade without a bounty [see Glossary] in competition with those who trade with a considerable one. If he sells his goods at nearly the same price, he cannot have the same profit; and poverty and beggary will inevitably be his lot, if not bankruptcy and ruin. If he tries to sell them much dearer, he is likely to have so few customers that his circumstances will not be much mended. . . . The endowments of schools and colleges have not only corrupted the diligence of public teachers but have made it almost impossible to have any good private ones.

There are no public institutions for the education of women, so there is nothing useless, absurd, or fantastical in the common course of their education. They are taught what their parents or guardians judge it necessary or useful for them to learn, and they are taught nothing else. Every part of a woman's education tends evidently to some useful

purpose:

- to improve the natural attractions of her person,
- to form her mind to reserve, modesty, chastity, and economy,
- to make her likely to become the mistress of a family, and to behave properly when she does.

In every part of her life a woman feels some convenience or advantage from every part of her education. It seldom happens that a man, in *any* part of his life, derives *any* convenience or advantage from some of the most laborious and troublesome parts of his education.

You may ask: 'Then ought the public to give no attention to the education of the people? And if it ought to give some, what different parts of education ought it to attend to in the different orders of the people? and how ought it to attend to them?'

In some cases, the state of society necessarily places most individuals in situations that naturally form in them, without any attention of government, almost all the abilities and virtues that the state of society requires, and perhaps all it can allow. In other cases, the state of the society does not place most individuals in such situations; and some attention of government is needed to prevent the almost entire corruption and degeneracy of the great body of the people.

·THE EDUCATION OF THE LABOURING POOR·

In the progress of the division of labour, the employment of most of those who live by labour comes to be confined to a few very simple operations, often only one or two. Now, the understandings of most men are formed by their ordinary employments. The man whose whole life is spent in performing a few simple operations—with effects that are always nearly the same—has no occasion to exert his

understanding or to exercise his invention in devising ways to remove difficulties that never occur. So he naturally loses the habit of such exertion, and generally becomes as stupid and ignorant as a human creature can possibly become. The torpor of his mind makes him incapable of

- enjoying or taking part in any rational conversation,
- conceiving any generous, noble, or tender sentiment, or, therefore,
- forming any just judgment concerning many even of the ordinary duties of private life.

Of the great and extensive interests of his country he is altogether incapable of judging; and unless particular trouble has been taken to make him otherwise he is equally incapable of defending his country in war. The uniformity of his stationary life naturally corrupts the courage of his mind, and makes him regard with abhorrence the irregular, uncertain, and adventurous life of a soldier. It corrupts even the activity of his body, and makes him incapable of exerting his strength with vigour and perseverance in any employment except the one to which he has been bred. Thus, his dexterity at his own particular trade seems to be acquired at the expense of his intellectual, social, and martial virtues. But in every improved and civilised society this *is* the state into which the labouring poor—i.e. the great body of the people—must necessarily fall unless government works to prevent it.

It is otherwise in societies of hunters, of shepherds, and even of husbandmen in the rude state of husbandry before the improvement of manufactures and the extension of foreign commerce. In such societies, each man's varied occupations oblige him to exert his capacity and to invent ways of solving problems that continually occur. Invention is kept alive, and the mind is not allowed to fall into the drowsy stupidity that seems to benumb the understanding

of most of the lower ranks of people in a civilised society. In those 'barbarous' societies every man is a warrior; every man is also in some measure a statesman, and can form a tolerable judgment concerning the interests of his society and the conduct of those who govern it; so almost every man can see well enough how far their chiefs are good judges in peace or good leaders in war. No man in such a society can acquire the improved and refined understanding that a few men sometimes have in a more civilised state. . . . Every man has a •considerable degree of knowledge, ingenuity, and invention but hardly any man has a •great degree of these qualities. Still, the degree that is commonly possessed is generally sufficient for conducting the whole simple business of the society. In a civilised state, on the other hand, though there is little variety in the occupations of most individuals there is an almost infinite variety in those of the whole society. These varied occupations present an almost infinite variety of topics of contemplation for those few who, having no particular occupation of their own, have leisure and inclination to examine the occupations of other people. Such contemplation exercises their minds in endless comparisons and combinations, and makes their understandings extraordinarily acute and comprehensive. But unless those few happen to be placed in some very particular situations, their great abilities—though honourable to themselves—may contribute little to the good government or happiness of their society. Despite the great abilities of those few, all the nobler parts of the human character may be to a large extent obliterated and extinguished in the great body of the people.

In a civilised and commercial society the education of the common people may require more public attention than the education of people of some rank and fortune. I base this on three facts about people of some rank and fortune. (i) They are generally about 19 years of age before they enter

on the particular business, profession, or trade by which they propose to distinguish themselves in the world. By then they have had plenty of time to acquire, or at least to fit themselves to acquire, every accomplishment that can •recommend them to the public esteem or •make them worthy of it; and their parents or guardians are generally anxious enough for this to happen to be willing enough to lay out the expense necessary for it. If they are not always properly educated, it is seldom from lack of expense laid out on their education but from the improper application of that expense. It is seldom from the lack of masters but from the negligence and incapacity of the masters who can be had and the impossibility (in the present state of things) of finding any better. (ii) The employments in which they spend most of their lives are not simple and uniform as those of the common people are. They are almost all extremely complicated, and such as exercise the head more than the hands. The understandings of those who are engaged in such employments can seldom grow slack through lack of exercise. (iii) Their employments are seldom such as harass them from morning to night. They generally have a good deal of spare time during which they can perfect themselves in every branch of useful or ornamental knowledge that attracts them.

It is otherwise with the common people. (i) Their parents can barely afford to maintain them, even in infancy. As soon as they are able to work they must follow some trade by which they can earn their subsistence. (ii) That trade is generally so simple and uniform that it gives little exercise to the understanding. (iii) Their labour is so constant and so severe that it leaves them little time and less inclination to think about any thing else.

But. . . the most essential parts of education—to read, write, and account—can be acquired so early in life that

even those who are to be bred to the lowest occupations have time to acquire them before they can be employed in those occupations. For a very small expense the public can facilitate, encourage and even impose on almost the whole body of the people the necessity of acquiring those most essential parts of education.

The public can **facilitate** this acquisition by establishing in every parish or district a little school where children can be taught for a reward so moderate that even a common labourer can afford it. The master may be partly paid by the public (but not wholly or even principally paid by it, because then he would soon learn to neglect his business). [This is done in Scotland, Smith reports, and to a lesser extent in England.] If in those little schools the books used in teaching children to read were a little more instructive than they commonly are; and if, instead of a smattering of Latin that the children of the common people are sometimes taught there, uselessly, they were instructed in the elementary parts of geometry and mechanics; the literary education [Smith's phrase] of this rank of people would perhaps be as complete as it can be. There is hardly any common trade that does not provide some opportunities for applying the principles of geometry and mechanics, and that would not therefore gradually exercise and improve the common people in those principles, which are the necessary introduction to the most abstract as well as to the most useful sciences.

The public can **encourage** the acquisition of those most essential parts of education by giving small premiums and little badges of distinction to the children of the common people who excel in them.

The public can **impose on** almost the whole body of the people the necessity of acquiring the most essential parts of education by obliging every man to undergo an examination in them before he can obtain the freedom in any corporation,

or be allowed to set up any trade in a village or town corporate.

[Smith writes about how ancient Greece and Rome dealt with education, especially military education. This leads into a discussion—largely repeating the one begun on page 202—of militias versus standing armies. Embedded in this is a striking declaration about a state's interest in its citizens' being brave; and this whole matter of the education of the young ends with a declaration about a state's interest in its citizens' not being stupid.]

. . . .A coward, a man incapable of defending or revenging himself, evidently lacks one of the most essential parts of the character of a man. He is as much mutilated and deformed in his mind as a legless man is in his body. He is evidently the more wretched and miserable of the two because happiness and misery must necessarily depend more on whether the mind is healthful or unhealthful, mutilated or whole, than on whether the body is. Even if the martial spirit of the people were of no use towards the defence of the society, the government would still need to give serious attention to preventing the mental mutilation, deformity, and wretchedness that cowardice involves from spreading through the great body of the people; just as it would need to give serious attention to preventing leprosy or any other loathsome and offensive disease from spreading among them, even if it were neither mortal nor dangerous. . . .

The same thing may be said of the gross ignorance and stupidity that seem so often to benumb the understandings of all the lower ranks of people in a civilised society. A man without the proper use of the intellectual faculties of a man is, if possible, more contemptible than even a coward, and seems to be mutilated and deformed in a still more essential part of the character of human nature. Even if the state derived no advantage from the instruction of the

lower ranks of people, it should still attend to their not being altogether uninstructed. In fact, though, the state gets considerable advantage from their instruction. The more they are instructed, the less liable they are to the delusions of fanaticism and superstition, which often cause the most dreadful disorders among ignorant nations. Also, an instructed and intelligent people are always more decent and orderly than an ignorant and stupid one. They feel themselves, each individually, more respectable and more likely to have the respect of their lawful superiors, which makes them more disposed to respect those superiors. . . . In free countries, where the safety of government depends very much on the the people's favourable judgment of its conduct, it must surely be of the highest importance that they should not be disposed to judge rashly or capriciously concerning it.

Section (c): The expense of the institutions for the instruction of people of all ages.

[For the 'c' of this section, see page 206.] The institutions for the instruction of people of all ages are chiefly those for religious instruction. The aim of this kind of instruction is not so much to make the people good citizens in this world as to prepare them for a better world in the life to come. The teachers of the doctrine that contains this instruction may—like other teachers—depend for their subsistence entirely •on the voluntary contributions of their hearers or •on some other fund to which the law of their country entitles them—e.g. a landed estate, a tithe or land tax, an established salary or stipend. Their zeal and industry are likely to be much greater in the former situation than in the latter. That is why the teachers of a new religion have always had an advantage in attacking established systems whose clergy, resting on their benefices [see Glossary], had •neglected to keep up the fervour of faith and devotion in the great body

of the people and •become incapable of making any vigorous exertion in defence even of their own establishment. The clergy of an established and well endowed religion often become men of learning and elegance, with all the virtues that can recommend them to the esteem of gentlemen; but they are apt gradually to lose the good and bad qualities that gave them authority and influence with the lower ranks of people and had perhaps been the causes of the original success and establishment of their religion. Such a clergy, when attacked by a set of popular and bold (though perhaps stupid and ignorant) fanatics, feel as defenceless as were the lazy, effeminate, well-fed nations of southern Asia when they were invaded by the active, hardy, and hungry Tatars of the north. In such an emergency they commonly have to call on the civil magistrate [see Glossary] to persecute, destroy, or drive out their adversaries as disturbers of the public peace. That is how the Roman catholic clergy called on the civil magistrate to persecute the protestants, and the church of England to persecute the dissenters; and how in general every religious sect that has for a century or two enjoyed the security of a legal establishment has found itself incapable of making any vigorous defence against any new sect that has chosen to attack its doctrine or discipline. On such occasions

- the established church sometimes has the advantage in learning and good writing, but
- its adversaries have the advantage in the arts of popularity, the arts of gaining proselytes.

In England those arts have been long neglected by the well-endowed clergy of the established church, and are now cultivated chiefly by the dissenters and the methodists. However, independent provisions have in many places been made for dissenting teachers—by voluntary subscriptions, trust rights, and other evasions of the law—and this seems to

have greatly lessened the zeal and activity of those teachers. Many of them have become very learned, ingenious, and respectable men; but they have in general ceased to be very popular preachers. The methodists, without half the learning of the dissenters, are much more in vogue.

In the church of Rome the industry and zeal of the lower clergy are kept more alive by self-interest than perhaps in any established protestant church. Many of the parochial clergy derive a considerable part of their subsistence from the voluntary gifts of the people—a source of income that confession gives them many opportunities of improving. The mendicant orders derive their whole subsistence from such gifts; it is with them as with the hussars and light infantry of some armies—no plunder, no pay. . . . So they have to use every art that can animate the devotion of the common people. Machiavelli said that the establishment of the two great mendicant orders, the Dominicans and the Franciscans, revived the languishing faith and devotion of the catholic church. In Roman catholic countries the spirit of devotion is supported entirely by the monks and the poorer parochial clergy.

[Smith now embarks on about 20 pages of •discussion of ways in which governments have interfered in religion, especially by having established churches; of •the reasons why religions start as morally strict and then gradually become morally 'loose'; of •the advantages and risks to a government siding with one religious sect; •of the history of the rise and fall of the worldly power of the Roman catholic church; and of •the causes of the reformation. None of this really fits into the topic of this book. The present version will confine itself to presenting a few memorable episodes.]

. . . Times of violent religious controversy have generally been times of equally violent political faction. On such occasions each political party has seen fit to ally itself with

one of the contending religious sects, which could be done only by adopting or at least favouring the tenets of that sect. The sect that had the good fortune to be allied with the conquering party necessarily shared in the victory of its ally, by whose favour and protection it was able in some degree to silence and subdue all its adversaries. . . . The clergy of this particular sect became powerful enough to overawe the leaders of their own party, and to oblige the civil magistrate to respect their opinions and inclinations. Their first demand was generally that he should silence and subdue all their adversaries; and their second that he should bestow an independent provision on themselves. As they had generally contributed a good deal to the victory, it seemed not unreasonable that they should have some share in the spoils. . . .

If politics had never called in the aid of religion, if the conquering party had never adopted the tenets of one sect more than those of another, it would probably have dealt impartially with all the sects, allowing every man to choose his own priest and his own religion. There would then have been a great multitude of religious sects, with almost every congregation having a little sect by itself. . . . This would have tamed—made less harmful—religious zeal. The teachers of each sect, seeing themselves surrounded by more adversaries than friends, would have to learn the candour and moderation that are so seldom found among the teachers of the great state-supported sects, who see nothing around them but followers, disciples, and humble admirers. . . .

. . . In every civilised society—every society where the distinction of ranks has been completely established—there have been always two systems of morality current at the same time: one may be called 'strict' or 'austere', the other 'liberal' or (if you will) 'loose'. The former is generally admired and revered by the common people; the latter is commonly

more esteemed and adopted by what the so-called people of fashion. The main difference between these two systems lies in their attitudes to the vices of levity, vices that are apt to arise from great prosperity and from the excess of gaiety and good humour. . . . [Smith goes on to say that common people favour the strict morality because they know that following the liberal or loose one would ruin them.]

. . . .The followers of Luther, together with what is called the church of England, preserved something of the episcopal government, established ranks among the clergy, gave the sovereign the disposal of all the bishoprics and other benefices within his dominions, thereby making him the real head of the church. . . . This system of church government was favourable to peace and good order, and to submission to the civil sovereign; so it has never caused any tumult or civil commotion in any country where it is established. The church of England has always valued herself, with good reason, on the unexceptionable loyalty of her principles. Under such a government, the clergy naturally try to win favour from the sovereign, the court, and the country's nobility and gentry. They pay court to those patrons, sometimes by the vilest flattery and obsequiousness but often also

- by cultivating all the arts that are most likely to gain them the esteem of people of rank and fortune;
- by their knowledge in all the branches of useful and ornamental learning,
- by the decent liberality of their manners,
- by the social good humour of their conversation, and
- by their avowed contempt for the absurd and hypocritical austerities that fanatics inculcate and pretend to practise. . . .

Such a clergy, however, while courting the higher ranks of life are apt to neglect the means of maintaining their influence and authority with the lower. They are listened

to, esteemed, and respected by their superiors; but when they defend their sober and moderate doctrines against the most ignorant fanatic who chooses to attack them, they often cannot convince their inferiors.

Nothing but exemplary morals can give dignity to a man of small fortune. The vices of levity and vanity make him ridiculous, as well as being almost as ruinous to him as they are to the common people. In his own conduct, therefore, he is obliged to follow the system of morals that the common people respect the most. He gains their esteem and affection by the plan of life that his own interest and situation would lead him to follow. The common people look on him with the kindness with which we naturally regard someone who approaches somewhat to our own condition but who we think ought to be in a higher. Their kindness naturally provokes his kindness. . . . That is why the presbyterian clergy have more influence over the minds of the common people than the clergy of any other established church; and why it is only in presbyterian countries that we ever find the common people converted—completely without persecution and almost to a man—to the established church.

Voltaire remarks that father Porée, a jesuit of no great eminence in the republic of letters, was the only professor they had ever had in France whose works were worth reading. It must seem strange that in a country that has produced so many eminent men of letters hardly any of them has been a professor in a university. The famous Gassendi was at first a professor in the university of Aix. On the first dawning of his genius it was put to him that by going into the church he could easily find a quieter and more comfortable subsistence, as well as a better situation for pursuing his studies; and he immediately followed the advice. Voltaire's observation may also be applied, I believe, to all the other Roman Catholic countries. We rarely find in any of them an eminent man

of letters who is a professor in a university, except perhaps in law and medicine, professions from which the church is not so likely to draw them. After the church of Rome, that of England is by far the richest and best endowed church in Christendom. In England, accordingly, the church is continually draining the universities of all their best and ablest members. . . . Whereas in Geneva, the protestant cantons of Switzerland, the protestant countries of Germany, and in Holland, Scotland, Sweden, and Denmark the greater part of the most eminent men of letters those countries have produced have been professors in universities. In those countries, the universities are continually draining the church of all its most eminent men of letters.

. . . It may be laid down as a certain maxim that other things being equal, the richer the church is, the poorer must be either the sovereign or the people; and either way. the less able must the state be to defend itself. In the protestant cantons of Switzerland the revenue that formerly belonged to the Roman catholic church—the tithes and church lands—has been found to be sufficient to provide competent salaries for the established clergy *and* to defray, with little or no addition, all the other expenses of the state. . . . The most affluent church in Christendom does not maintain better in the great body of the people the uniformity of faith, the fervour of devotion, the spirit of order, regularity, and austere morals, than the poorly endowed church of Scotland. All the good effects, both civil and religious, that an established church can be supposed to produce are produced by it as completely as by any other. Most of the protestant churches of Switzerland, which are not better endowed than the church of Scotland, produce those effects in a still higher degree. . . .

The proper performance of every service seems to require that its pay or recompense should be as exactly as possible

proportioned to the nature of the service. If any service is much underpaid, it is apt to suffer by the meanness and incapacity of most of those who are employed in it. If it is much overpaid, it is apt to suffer still more by their negligence and idleness. A man with a large income, whatever his profession, thinks he ought to live like other men with large incomes, spending much of his time in festivity, vanity, and dissipation. But in a clergyman this way of life not only •consumes the time that ought to be employed in the duties of his function, but in the eyes of the common people •destroys almost entirely the sanctity of character that he needs if he is to perform those duties with proper weight and authority.

Part 4. The expense of supporting the dignity of the sovereign

In addition to the expenses necessary for enabling the sovereign to perform his several duties, a certain expense is required for the support of his dignity. This expense varies with societies' different states of improvement and with the different forms of government.

In an affluent and improved society where all ranks of people spend increasingly freely on their houses, their furniture, their tables, their dress, and their equipage, the sovereign can hardly be expected to hold out against the fashion. His dignity seems to require that he should also spend more freely on those articles.

Just as a monarch is, in point of dignity, raised above his subjects more than the chief magistrate of any republic is ever supposed to be above *his* fellow-citizens, so a greater expense is necessary for supporting that higher dignity. We naturally expect more splendour in the court of a king than in the mansion-house of a doge or burgomaster.

Conclusion

The expenses of **defending the society** and **supporting the dignity of the chief magistrate** are both laid out for the general benefit of the whole society. So it is reasonable that they should be defrayed by the general contribution of the whole society, all the members contributing, as nearly as possible, in proportion to their respective abilities.

The expense of the **administration of justice** may also be considered as laid out for the benefit of the whole society, so there is no impropriety in its being defrayed by the general contribution of the whole society. But the persons who give rise to this expense are those who by their bad behaviour make it necessary to seek redress or protection from the courts of justice; and the persons most immediately benefited by this expense are those whose rights are restored or maintained by the courts of justice. So the expense of the administration of justice may properly be defrayed by the fees of court, extracting contributions from either or both of those two sets of persons, depending on the circumstances. It is not necessary to resort to the general contribution of the whole society except for the conviction of criminals who have no means to pay those fees.

The **local or provincial expenses** for such things as the police of a particular town or district ought to be defrayed by a local or provincial revenue and not be a burden on the general revenue of the society. It is wrong that the whole society should contribute towards an expense the benefit of which is confined to a part of the society.

The expense of **maintaining good roads and communications** is no doubt beneficial to the whole society, and may therefore, without injustice, be defrayed by the general contributions of the whole society. Still, this expense is most immediately and directly beneficial to •those who travel

or carry goods and •those who consume such goods. The turnpike tolls in England, and their like in other countries, lay it all on those two sets of people, thus freeing the general revenue of the society from a considerable burden.

The expense of the **institutions for education and religious instruction** is also beneficial to the whole society, and may therefore, without injustice, be defrayed by the general contribution of the whole society. But this expense might with equal propriety—and even with some advantage—be entirely defrayed by those who receive the immediate benefit of such education and instruction, i.e. by the voluntary contribution of those who think they need one or the other.

When the **institutions or public works** that are beneficial to the whole society are not—perhaps cannot be—entirely maintained by the contribution of the members of the society who are most immediately benefited by them, the deficiency must usually be made up by the general contribution of the whole society.

So the general revenue of the society, as well as defraying the expense of defending the society and supporting the dignity of the chief magistrate, must make up for the deficiency of many particular branches of revenue. In the next chapter I shall try to explain the sources of this general or public revenue.

Chapter 2: The sources of the general or public revenue of the society

The revenue that must defray all the necessary expenses of government for which the constitution of the state has not provided any particular revenue can come either from **(1)** some fund that belongs particularly to the sovereign or commonwealth and is independent of the revenue of the people or **(2)** from the revenue of the people.

Part 1. The funds that belong particularly to the sovereign or commonwealth

The funds or sources of revenue that particularly belong to the sovereign or commonwealth must consist in stock or in land.

The sovereign, like, any other owner of stock, can derive revenue from it either as •profit from employing it himself or as •interest from lending it.

The revenue of a Tatar or Arabian chief consists in profit. It arises principally from the milk and increase of his own herds and flocks which he manages himself, being the principal shepherd or herdsman of his own tribe. But it is *only* in this earliest and rudest state of civil government that profit has ever been the main part of the public revenue of a monarchical state.

Small republics have sometimes derived a considerable revenue from the profit of mercantile projects. [He gives examples—Hamburg, Venice and Amsterdam—with details. Against those who say that the government of Great Britain could take over the bank of England and draw revenue from its profits, he says:] Experience shows that the orderly, vigilant, and parsimonious administration of such aristocracies as those of Venice and Amsterdam is proper for the management of a mercantile project of this kind. But whether a government such as England's could be safely trusted with the management of such a project must at least be a good deal more doubtful. That government, whatever its virtues, has never been famous for good economy. In times of peace it has generally conducted itself with the slothful and negligent profusion that is perhaps natural to monarchies; and in times of war it has constantly acted with all the thoughtless extravagance that democracies are apt to fall into.

The post-office is properly a mercantile project. The government advances the expense of establishing the offices, and of buying or hiring the necessary horses or carriages, and is repaid with a large profit by the duties on what is carried. It may be the only mercantile project that has been successfully managed by every sort of government. The capital to be advanced is not very considerable. There is no mystery in the business. The returns are not only certain but immediate.

Princes have often engaged in many other mercantile projects, trying like private persons to mend their fortunes through ventures in the common branches of trade. They have hardly ever succeeded. The profusion with which the affairs of princes are always managed makes it almost impossible that they should. The agents of a prince regard their master's wealth as inexhaustible; they are careless about what price they buy at, what price they sell at, what price they pay to transport his goods. . . .

No two characters seem more inconsistent than those of trader and sovereign. If the trading spirit of the English East India company makes them very bad sovereigns, the spirit of sovereignty seems to have made them equally bad traders. While they were only traders they managed their trade successfully and were able to pay from their profits a moderate dividend to the owners of their stock. Since they became sovereigns—with a revenue that is said originally to have been more than £3,000,000—they have had to beg the ordinary assistance of government so as to avoid immediate bankruptcy. In their former situation, their servants in India saw themselves as the clerks of merchants; in their present situation, those servants see themselves as the ministers of sovereigns.

A state may sometimes get a part of its public revenue from the interest on money as well as from the profits of

stock. If it has amassed a treasure it may lend a part of that treasure to foreign states or to its own subjects. [Smith describes the somewhat odd ways in which this is done by the canton of Berne and the city of Hamburg. Then:]

The government of Pennsylvania, without amassing any treasure, found a way of lending to subjects something equivalent to money, namely paper bills of credit, at interest and on land security to double the value, to be redeemed after fifteen years. During those fifteen years they could be transferred from hand to hand, like banknotes, and were declared by act of assembly to be a legal tender in all payments from one inhabitant of the province to another. This raised a moderate revenue that went a considerable way towards defraying an annual expense of about £4,500, the whole ordinary expense of that frugal and orderly government. . . . The same expedient was adopted by several other American colonies, but it produced in most of them much more disorder than convenience, because they issued paper bills of credit exceeding the value of the gold and silver money that would have been necessary for carrying on their circulation if there had been no paper bills of credit.

The unstable and perishable nature of stock and credit makes them unfit to be trusted as the principal source of the sure, steady, and permanent revenue that is needed for the security and dignity of government. The government of no large nation that was advanced beyond the shepherd state seems ever to have derived most of its public revenue from such sources.

Land is a fund of more stable and permanent nature; and the rent of public lands has been the principal source of the public revenue of many large nations that had advanced much beyond the shepherd state. For a long time the ancient republics of Greece and Italy derived most of the revenue that defrayed the necessary expenses of the commonwealth

from the product or rent of the public lands. The rent of the crown lands constituted for a long time most of the revenue of the ancient sovereigns of Europe.

War and the preparation for war are the two circumstances which in modern times cause most of the necessary expense of all large states. But in the ancient republics of Greece and Italy every citizen was a soldier, and served (and prepared himself for service) at his own expense. . . . The rent of a very moderate landed estate might be fully sufficient for defraying all the *other* necessary expenses of government.

In the ancient monarchies of Europe the manners and customs of the time sufficiently prepared most of the people for war; and the condition of their feudal tenures meant that when they took the field they were to be maintained at their own expense or at that of their immediate lords, without bringing any new charge on the sovereign. The other expenses of government were mostly very moderate. The administration of justice was, as I have shown, not an expense but a source of revenue. The labour of the country people for three days before harvest and three days after was thought a fund sufficient for making and maintaining all the bridges, highways, etc. that the commerce of the country was supposed to require. In those days the principal expense of the sovereign seems to have consisted in the maintenance of his own family and household. [He gives some details about how this was managed, concluding:] The rent of a great landed estate such as the sovereign possessed might on ordinary occasions very well defray all the necessary expenses of government.

In the present state of most of the civilised monarchies of Europe the rent of all the lands in the country, if managed as they probably would be if they all belonged to one proprietor, would hardly amount to the ordinary revenue that governments levy on the people even in peaceable

times. [Smith discusses the case of Great Britain, where he says that income from crown lands is vastly less than the government needs. He concludes:] The crown lands of Great Britain do not at present provide a quarter of the rent that could probably be drawn from them if they were the property of private persons. If the crown lands were more extensive they would probably be even worse managed. . . .

There is not at present in Europe any civilised state of any kind that gets most of its public revenue from the rent of lands belonging to the state; but in all the large European monarchies there are still many large tracts of land belonging to the crown. They are generally wild and uncultivated areas, in some of which you can travel for miles seeing hardly a single tree; a mere waste and loss of countryside, in respect of product and of population. In every large European monarchy the sale of the crown lands would produce a very large sum of money, which if applied to the payment of the public debts would deliver from mortgage a much greater revenue than any that those lands have ever provided to the crown. . . . When the crown lands had become private property, they would in the course of a few years become well improved and well cultivated. The increase of their product would increase the population of the country by increasing the revenue and consumption of the people. The population increase might add somewhat to the expenses of government, but the revenue the crown derives from the duties or custom and excise would necessarily increase with the revenue and consumption of the people.

The revenue that the crown derives from the crown lands in any civilised monarchy, though it appears to cost nothing to individuals, actually costs more to the society than perhaps any other equal revenue the crown enjoys. It would always be in the interests of the society to replace this revenue for the crown by some other equal revenue, and to

divide the lands among the people. . . .by exposing them to public sale.

Lands for the purposes of pleasure and magnificence—parks, gardens, public walks, etc.—possessions that are everywhere regarded as causes of expense rather than sources of revenue, seem to be the only lands that ought to belong to the crown in a large and civilised monarchy.

Thus, public stock and public lands, the two sources of revenue that can belong specifically to the sovereign or commonwealth, are •improper and •insufficient funds for defraying the necessary expense of any large and civilised state. So most of this expense must be defrayed by taxes of some kind through which the people contribute a part of their own private income to create a public revenue for the sovereign or commonwealth.

Part 2. Taxes

The private income of individuals, I showed in Book I, arises basically from three sources—rent, profit, and wages. Every tax must ultimately be paid from one or more of those three sources of income. I shall give the best account I can of taxes that are intended to fall on

- (1) rent,
- (2) profit,
- (3) wages, or
- (4) indifferently on all those three sources of private income.

The particular consideration of each of these four sorts of taxes will divide the second part of the present chapter into four sections, of which all but (3) will have several subdivisions. It will turn out that many of these taxes are not ultimately paid from the source of income they are intended to fall on.

Before examining particular taxes I must premise the four following maxims concerning taxes in general.

(i) The subjects of every state ought to contribute towards the support of the government, as nearly as possible, in proportion to their abilities, i.e. in proportion to the income they enjoy under the protection of the state. The expense of government to the individuals of a large nation is like the expense of management to the joint tenants of a large estate, who are all obliged to contribute in proportion to their respective interests in the estate. What is called the equality or inequality [here = 'fairness or unfairness'] of taxation consists in conformity to or departure from this maxim. Every tax that ultimately falls on just one of the three sorts of income above mentioned—rent, profit, wages—is necessarily unequal in so far as it does not affect the other two. In this chapter I shall seldom take much notice of this sort of inequality, and shall usually confine my observations to the inequality that arises from a particular tax's falling unequally across particular sorts of rent, or of profit, or of wages.

(ii) The tax that each individual is bound to pay ought to be certain and not arbitrary. The time of payment, the manner of payment, the amount to be paid, ought all to be clear and plain to the contributor and to everyone else. . . . The uncertainty of taxation encourages the insolence and favours the corruption of tax-gatherers, who are naturally unpopular even where they are neither insolent nor corrupt. I think that the experience of all nations shows that a very considerable degree of inequality is not nearly as great an evil as a very small degree of uncertainty.

(iii) Every tax ought to be levied at the time when it is most likely to be convenient for the contributor to pay it. A tax on the rent of land or of houses, payable at the same term at which such rents are usually paid, is levied at the time when the contributor is most likely to have the wherewithal

to pay. Taxes on articles of luxury are all ultimately paid by the consumer, and generally in a manner that is convenient for him. He pays them little by little, as he has occasion to buy the goods. It must be his own fault if he ever suffers any considerable inconvenience from such taxes, because he always has the option of not buying.

(iv) Every tax ought to be designed so that it takes out (and keeps out) of the pockets of the people as little as possible, over and above what it brings into the state's public treasury. There are four ways in which this can be infringed. **(a)** Raising the tax may require many officers whose salaries eat up most of the product of the tax, **(b)** The tax may obstruct the industry of the people, discouraging them from engaging in certain branches of business that could give maintenance and employment to great multitudes. If this happens, the tax, while requiring the people to pay, lessens or even destroys some of the funds that might make it easier for them to do so. **(c)** By the penalties incurred by the unfortunate individuals who try unsuccessfully to evade the tax, it may often ruin them, thereby ending the benefit the community might have received from the employment of their capital. An injudicious tax offers a great temptation to smuggling; and the penalties for smuggling arise in proportion to the temptation. Contrary to all the ordinary principles of justice, the law first creates the temptation and then punishes those who yield to it; and often it increases the punishment in proportion to the very thing that ought to alleviate it, namely the temptation to commit the crime. **(d)** By subjecting the people to the frequent visits and the odious examination of the tax-gatherers, it may expose them to much unnecessary trouble, vexation, and oppression; and though vexation is not strictly speaking an expense, it is certainly equivalent to the expense at which every man would be willing to release himself from it.—These are the four ways in which taxes are

often so much more burdensome to the people than they are beneficial to the sovereign.

The evident justice and utility of the foregoing maxims have recommended them somewhat to the attention of all nations. All nations have tried to the best of their judgment to make their taxes conform to the maxims. The following short review of some of the principal taxes that have occurred in different ages and countries will show that the efforts of all nations have not been equally successful in this. [Smith's 'short review', 70 pages long, will be much shortened here.]

(1a) Taxes on the rent of land

A tax on the rent of land may be imposed either

- according to a certain canon, every district being valued at a certain rent, the valuation being fixed, or
- in such a way as to vary with every variation in the real rent of the land, rising or falling with the improvement or decline of its cultivation.

A land tax like that of Great Britain, which is assessed on each district according to a certain invariable canon, even if it is equal at the outset, inevitably becomes unequal because of the unequal degrees of improvement or neglect in the cultivation of the different parts of the country. The tax of this kind in England, based on valuations made at the time of William and Mary, was very unequal from the start; so it offends against maxim (i) but conforms to (ii)–(iv). [He goes on to say that as land is improved the landlord's rent goes up; but this tax stays the same. Thus, the prosperity of Great Britain has led to improvement in nearly all land, with the result that] the constancy of the valuation has been advantageous to the landlord and hurtful to the sovereign. In a different state of things it might have been advantageous to the sovereign and hurtful to the landlord.

[Smith goes on to say that this tax is stated in terms of money, as is the valuation of the land; so that if there had been any large change in value of silver, that would have made a big difference to the tax. There *hasn't* been any such change, he says, but:] Every constitution that it is meant to be as permanent as the empire itself ought to be convenient not merely in certain circumstances but in all circumstances, i.e. ought to be suited not to circumstances that are transitory, occasional, or accidental, but to those that are necessary and therefore always the same.

A tax on the rent of land that varies with every variation of the rent, i.e. that rises or falls according to the improvement or neglect of cultivation, is recommended as the fairest of all taxes by the sect of men of letters in France who call themselves the 'economists'. All taxes, they claim, fall ultimately on the rent of land, and ought therefore to be imposed equally on the fund that must finally [see Glossary] pay them. It is certainly true that all taxes should fall as equally as possible on the fund that must finally pay them; but I shall now exhibit which taxes do fall finally on the rent of the land and which do not. (I shan't enter into the disagreeable discussion of the metaphysical arguments by which the 'economists' support their very ingenious theory.)

[Smith describes the tax that is imposed 'in the Venetian territory', a 'land-tax that varies with every variation of the rent', describing it as (i) 'more equal than the land-tax of England' but as possibly defective in (ii) certainty, (iii) convenience and (iv) inexpensiveness. He discusses at length possible ways of overcoming these defects. Then:]

The most important objection that can be made to a variable land-tax of this kind seems to be the discouragement it might give to the improvement of land. The landlord would certainly be less disposed to improve his land if the sovereign was to share in the profit of the improvement

without contributing anything to the expense of it. This objection might be met by allowing the landlord, before he began his improvement, to ascertain. . . .the actual value of his lands, and to have his land-tax fixed on the basis of *that* valuation for a fixed number of years. A principal advantage of this kind of land-tax is that it would draw the the sovereign's attention towards the improvement of the land as a source of increase of his own revenue. So the term fixed for the landlord's indemnification [= freedom from tax-increases] ought not to be much longer than what was necessary for that purpose, because the sovereign may lose interest if the advantage to him is too far off in the future. But it had better be •somewhat too long than •in any respect too short. No incitement to the attention of the sovereign can ever counterbalance the smallest discouragement to that of the landlord. The attention of the sovereign cannot be more than a very general and vague consideration of what is likely to contribute to the welfare of his dominions. The attention of the landlord is a particular and minute consideration of what is likely to be the most advantageous application of every inch of ground on his estate. . . .

If a tax of this kind could be so managed as to give some *encouragement* to the improvement of land, it does not appear likely to **(iii)** cause any other inconvenience to the landlord except the always unavoidable one of having to pay the tax. In all the variations of the state of the society, in the improvement and in the decline of agriculture; in all the variations in the value of silver, and in all those in the standard of the coin, a tax of this kind would automatically and without any attention of government adjust itself to the actual situation of things, and would be equally **(i)** just and equitable in all those changes. So it would be much more proper to be established as a perpetual and unalterable regulation—i.e. what is called a fundamental law of the

commonwealth—than any tax that was always to be levied according to a certain valuation.

[Smith has spoken of the procedure of establishing land-values by keeping an official register of the lease arrangements between landlords and farmers. He now returns to this:] Some states, instead of the simple and obvious expedient of a register of leases, have resorted to the laborious and expensive procedure of an actual survey and valuation of all the lands in the country. They have probably suspected that the lessor and lessee, in order to defraud the public revenue, might combine to conceal the real terms of the lease. The doomsday-book seems to have been the result of a very accurate survey of this kind. [He now has a couple of pages describing variants of this approach, finding them to be laborious, expensive, and in the long run unfair.]

(1b) Taxes on the product of land

Taxes on the product of land are really taxes on the rent; and though they may be initially advanced by the farmer they are finally paid by the landlord. When a certain portion of the product is to be paid as a tax, the farmer computes as well as he can what the value of this portion is likely to amount to, and he reduces proportionally the rent he agrees to pay to the landlord. There is no farmer who does not compute beforehand what the church tithe (which is a land tax of this kind) is likely to amount to.

Every land tax of this kind, under the appearance of perfect equality, is very unequal, because a certain portion of the product is equivalent to very different portions of the rent in different situations. In some rich lands the product is so great that one half of it is sufficient to replace the capital the farmer employed in cultivation, together with the ordinary profits of farming stock in his neighbourhood. He could afford to pay the value of the other half as rent

to the landlord, if there was no tithe. But if a tenth of the product is taken from him by way of tithe, he must require a one-fifth reduction in his rent; otherwise he cannot get back his capital with the ordinary profit. In this case the landlord's rent will amount only to four-tenths of (the value of) the product. In poorer lands, on the other hand, the product is sometimes so small and the expense of cultivation so great that it requires four-fifths of the whole product to replace the farmer's capital with the ordinary profit. In this case, if there was no tithe the landlord's rent could amount to no more than one-fifth of the whole product. But if the farmer pays one-tenth of the product by way of tithe, he must require an equal reduction in the rent he pays the landlord, which will thus be reduced to one-tenth of the whole product. Thus, on the rent of rich lands the tithe may sometimes be a tax of no more than one-fifth, i.e. four shillings in the pound; whereas on that of poorer lands it may sometimes be a tax of one half, i.e. ten shillings in the pound.

The tithe is always a great discouragement

- to the improvements of the landlord, who cannot venture to make the most important improvements, which are generally the most expensive, and
- to the cultivation of the farmer, because the most valuable crops are generally also the most expensive, given that the church, which lays out no part of the expense, is to share so very largely in the profit. The cultivation of madder was for a long time confined by the tithe to the United Provinces which, being presbyterian countries and thus exempt from this destructive tax, enjoyed a sort of European monopoly of that useful dyeing drug. Recent attempts to introduce the culture of this plant into England would not have been made if it were not for a statute enacting that five shillings an acre should be received in lieu of any sort of tithe on madder.

[Smith adds two or three pages on different versions of tax-on-product in various (mostly Asian) countries, and is sceptical about all of them. He discusses the practice of taking the tax not in money but 'in kind', i.e. in the actual product of the land. This is especially open to abuse or neglect on the part of the tax-gatherers, he says, especially if the recipient of the tax is a long way away from the land in question. He adds to his catalogue of bad behaviour by the 'servants of the East India company'.]

(1c) Taxes on the rent of houses

The rent of a house can be divided into two parts: the building-rent and the ground-rent.

The building-rent is the interest or profit of the capital spent in building the house. For the trade of builder to be on a level with other trades this rent must be sufficient

- to pay him the same interest that he would have received for his capital if he had lent it on good security; and
- to keep the house in constant repair, i.e. to replace within a certain term of years the capital employed in building it.

So the building-rent—or ordinary profit of building—is always regulated by the ordinary interest on money. Where the market rate of interest is 4%, a house-rent that provides 6% or 6½% on the whole expense of building may provide a sufficient profit to the builder. (The ground-rent is additional to this.) Where the market rate of interest is 5% it may require 7% or 7½%. If in proportion to the interest on money the builder's trade ever provides a much greater profit than this, it will soon attract so much capital from other trades that its profit will sink to its proper level. If it ever provides much less than this, other trades will soon draw so much capital from it that its profit will go up again.

Whatever part of the whole rent of a house is over and above what provides this reasonable profit naturally goes to the ground-rent; and if the owner of the ground and the owner of the building are two persons this is usually all paid to the former. This surplus rent is the price the inhabitant of the house pays for some real or supposed advantage of the situation. In country houses at a distance from any large town where there is plenty of ground available, the ground-rent is almost nothing—no more than what the ground the house stands on would pay if employed in agriculture. In country villas in the neighbourhood of some large town it is sometimes a good deal higher, and the special convenience or beauty of situation is often well paid for. Ground-rents are generally highest in the capital city, and in the parts of it where there happens to be the greatest demand for houses, whatever the reason is for that demand. . . .

[Smith writes about these two components of house-rent and the effects of taxes on them. His main point is that a house-occupant can avoid some of the tax on the building-rent by moving to a less expensive house, whereas the owner of the land has no such easy expedient for reducing the tax on ground rent that he must pay.]

[After several pages of complicated stuff about building rent and ground rent, Smith turns to the question of how the tax authorities in England have dealt with the ‘difficulty’ (he doesn’t think there is one) of establishing what the real rent is for each house, namely by fixing on some feature of a house which is easy to establish and which (they think) ‘bears some proportion to the rent’. For a while, a house was taxed according to how many hearths it contained; but this required the tax gatherer to enter every room of the house, an ‘odious’ procedure which led to the abandonment of this approach. The main other device—still in force when Smith

was writing—was to tax a house on the basis of how many windows it has, the rate per window being higher for houses with more windows. Smith objects:] The principal objection to all such taxes is their inequality; an inequality of the worst kind because they must often fall much more heavily on the poor than on the rich. A house of £10 rent in a country town may sometimes have more windows than a house of £500 rent in London; and though the inhabitant of the former is likely to be a much poorer man than that of the latter, yet so far as his contribution is regulated by the window tax he must contribute more to the support of the state. Such taxes are therefore directly contrary to my maxim (i); they seem not to offend much against any of (ii)–(iv).

(2a) Taxes on profit

The income or profit arising from stock naturally divides into two parts: •that which pays the interest, and belongs to the owner of the stock, and •the remainder, the surplus part that is over and above what it takes to pay the interest.

This latter part of profit is evidently not taxable directly. [Smith explains why. If it is taxed, the owner of the stock must, ‘consistently with his own interest’, follow some procedure which would result in the tax’s ‘finally’ falling on •his landlord (if he is a farmer), •consumers of his goods (if he is a manufacturer), or •‘the interest on money’. But then why can’t the interest on money be taxed directly, as the rent of land is? Smith explains:] Two circumstances make the interest on money a much less proper subject of direct taxation than the rent of land.

(a) The quantity and value of the land that a man possesses can never be a secret, and can always be ascertained with great exactness. But the whole amount of the capital stock he possesses is almost always a secret, and can hardly ever be ascertained with tolerable exactness. And

it is liable to almost continual variations. . . . An inquisition into every man's private circumstances—watching over all the fluctuations of his fortune—would be a source of such continual and endless vexation that no person could bear it.

(b) Land cannot be moved, whereas stock easily can. The owner of land is necessarily a citizen of the particular country in which his estate lies. The owner of stock is really a citizen of the world, and is not necessarily attached to any particular country. He would be apt to abandon the country in which he was exposed to a vexatious inquisition in order to be assessed for a burdensome tax; and would move his stock to some other country where he could carry on his business or enjoy his fortune more at his ease. By moving his stock he would put an end to all the industry it had maintained in the country he left. Stock cultivates land; stock employs labour. A tax tending to drive stock away from a country would tend to dry up every source of revenue to the sovereign and to the society. Not only the profits of stock, but also the rent of land and the wages of labour, would inevitably be somewhat diminished by its removal.

So the nations that have tried to tax the income arising from stock have avoided any severe inquisition of this kind by resorting to some very loose and therefore somewhat arbitrary estimation. The extreme inequality and uncertainty of a tax assessed in this manner can be compensated for only by its extreme moderation, in consequence of which each man finds himself rated so much below his real income that he does not much mind if his neighbour is rated somewhat lower.

[Smith gives details concerning how this matter has been handled in various countries, including England (a complex story). He reports that 'In all countries a severe inquisition into the circumstances of private persons has been carefully avoided.' In Hamburg each individual assesses himself and

pays tax accordingly, but neither the assessment nor the tax are made public:] This tax is generally supposed to be paid with great fidelity. In a small republic where the people have entire confidence in their magistrates, are convinced of the necessity of the tax for the support of the state, and believe that it will be faithfully applied to that purpose, such conscientious and voluntary payment may sometimes be expected. It is not restricted to the people of Hamburg.

[In several countries each individual publicly declares on oath the value of his stock, and in many such declarations are trustworthy and trusted. Smith gives details of some of these, including certain Swiss cantons. He remarks:] To oblige every citizen to declare publicly on oath the amount of his fortune is apparently not regarded as a hardship in those Swiss cantons. At Hamburg it would be reckoned the greatest hardship. Merchants engaged in the hazardous projects of trade all tremble at the thought of being obliged at all times to expose the real state of their circumstances. They foresee that this would often lead to the ruin of their credit and the miscarriage of their projects. A sober and parsimonious people who do not engage in such projects do not feel that they have occasion for any such concealment. . . .

(2b) Taxes on the profit of particular employments

In some countries special taxes are imposed on the profits of stock, sometimes when employed in particular branches of trade and sometimes when employed in agriculture.

Of the former kind in England are the tax on hawkers and pedlars, on hackney-coaches and chairs, and the tax that the keepers of ale-houses pay for a licence to retail ale and spirituous liquors. . . .

A tax on the profits of stock employed in any particular branch of trade always. . . . finally falls on the consumers, who have to pay in the price of the goods the tax that the

dealer advances—and generally with some overcharge.

A tax of this kind, when it is proportioned to the trade of the dealer, is finally paid by the consumer and does not oppress the dealer. When instead it is the same for all dealers, it is again finally paid by the consumer large dealer and somewhat oppresses the small one. [He gives examples of both kinds of tax, proportional and flat-rate, all involving taxes that are small enough not to make any great difference. Then:] The tax on shops was intended to be the same for all shops. It could not well have been otherwise. To proportion with tolerable exactness the tax on a shop to the extent of the trade carried on in it would require an inquisition that would be altogether intolerable in a free country. If the tax had been considerable it would have oppressed the small dealers and forced almost the whole retail trade into the hands of the large ones [and he explains how that would have created monopolies, the ultimate loser being the consumer.] For these reasons, the project of a tax on shops was laid aside, its place being taken by the subsidy, 1759.

[Smith now devotes a couple of pages to different forms of land-tax that developed in Europe during its feudal period, when ‘the sovereign was obliged to content himself with taxing those who were too weak to refuse to pay taxes’. Then:]

When a tax is imposed on the profits of stock in a particular branch of **trade**, the traders are all careful to bring no more goods to market than they can sell at a price high enough to reimburse them for paying the tax. Some of them withdraw a part of their stocks from the trade, and the market is more sparingly supplied than before. The price of the goods rises, and the final payment of the tax falls on the consumer. But when a tax is imposed on the profits of stock employed in **agriculture**, it is not in the interests of the farmers to withdraw any part of their stock from that employment. Each farmer occupies a certain quantity of

land for which he pays rent. For the proper cultivation of this land, a certain quantity of stock is necessary; and by withdrawing any part of this necessary quantity the farmer is not likely to be more able to pay either the rent or the tax. . . . After the imposition of a tax of this kind, the farmer can get a reasonable profit only by paying less rent to the landlord; the more tax he has to pay the less he can afford to pay in rent. When a tax of this kind is imposed during the currency of a lease, it may no doubt distress or ruin the farmer. On the renewal of the lease, it must always fall on the landlord.

What are called poll-taxes in the southern provinces of North America and the West India islands—annual taxes of so much per head on every negro—are really taxes on the profits of a certain species of stock employed in agriculture. As the planters are mostly both farmers and landlords, the final payment of the tax falls on them in their role as landlords, with no way of getting recompense.

Taxes of so much per head on the bondmen employed in cultivation seem once to have been common all over Europe; and there is one now in the empire of Russia. It is probably on this account that poll-taxes of all kinds have often been represented as badges of slavery. Every tax, however, is, to the person who pays it a badge not of slavery but of liberty. It shows that he is subject to government, indeed, but it also shows that as he *has* some property he cannot himself *be* the property of a master. A poll-tax on slaves is altogether different from a poll-tax on freemen. The latter is paid by the persons on whom it is imposed; the former by a different set of persons. The latter is altogether arbitrary or altogether unequal, and in most cases it is both; the former, though in some respects unequal (because different slaves have different values) is in no way arbitrary. Every master who knows the number of his own slaves knows exactly what he

has to pay. Those different taxes have been considered as of the same nature because they are called by the same name.

The taxes which in Holland are imposed on servants are taxes not on stock but on expense, and to that extent resemble the taxes on consumable commodities. The tax of a guinea a head for every man-servant, which has lately been imposed in Great Britain, is of the same kind. It falls heaviest on the middling rank. A man with £200 a year may keep a single man-servant. A man with £10,000 a year will not keep fifty. It does not affect the poor.

Taxes on the profits of stock in particular employments can never affect interest-rates. [Smith goes into some details about this in relation to France and to England.]

(2c) Taxes on the capital value of lands, houses, and stock

While property remains in the possession of the same person, any permanent taxes imposed on it have never been intended to take away any part of its capital value but only some part of the income arising from it. But when property changes hands—transmitted from the dead to the living or from the living to the living—taxes have often been imposed on it that necessarily take away part of its capital value.

The transference of all sorts of property from the dead to the living, and of immovable property of land and houses from the living to the living, are transactions which in their nature. . . . cannot be long concealed; so they can be taxed directly. The transference of stock or movable property from the living to the living, by the lending of money, is often a secret transaction and can always be made so; so it cannot easily be taxed directly. It has been taxed indirectly in two ways, by ruling that the loan is not valid unless •the deed containing the obligation to repay it is written on paper or parchment on which a certain stamp duty has been paid, or •it is recorded in a public or secret register, a duty being

charged for such registration. Stamp duties and duties of registration have often been imposed likewise on the deeds transferring property of all kinds from the dead to the living, and on those transferring immovable property from the living to the living; transactions which could easily have been taxed directly.

[Smith spends about three pages on details of various kinds of death-duties down the centuries, and the uses of stamp-duties and duties on registration to tax land-sales etc. He concludes sardonically:] Those modes of taxation, by stamp duties and by duties on registration, are of very modern invention. In the course of little more than a century stamp duties have become almost universal in Europe, and duties on registration extremely common. There is no art that one government sooner learns from another than that of draining money from the pockets of the people.

Taxes on the transference of property from the dead to the living fall immediately and finally [see Glossary] on the persons to whom the property is transferred. Taxes on the sale of land fall altogether on the seller. The seller almost always *has to* sell, and must therefore settle for what price he can get. The buyer is hardly ever under the necessity of buying, and will therefore only pay a price that he likes. He considers what the land will cost him in tax and price together; the more he has to pay in tax the less he will be disposed to give as price. Such taxes, therefore, fall almost always on a person in need, and are often very cruel and oppressive. Taxes on the sale of new-built houses, where the building is sold without the ground, fall on the buyer, because the builder must have his profit or else give up the trade. If he advances the tax, therefore, the buyer must repay it to him. Taxes on the sale of old houses, for the same reason as those on the sale of land, fall generally on the seller, who in most cases is obliged to sell by convenience or necessity. The number of new-built

houses that are annually brought to market is more or less regulated by the demand. Unless the demand provides the builder his profit after paying all expenses, he will build no more houses. The number of old houses that happen at any time to come to market is regulated by stray events most of which have no relation to the demand. Two or three great bankruptcies in a mercantile town will bring on the market many houses that must be sold for what can be got for them. Taxes on the sale of ground-rents fall altogether on the seller, for the same reason as those on the sale of lands. Stamp duties, and duties on the registration of bonds and contracts for borrowed money, fall entirely on the borrower and are in fact always paid by him. Duties of the same kind on law proceedings fall on the suitors. They reduce to both the capital value of the subject in dispute. The more it costs to acquire a property the less must be its value when acquired.

All taxes on the transference of property of any kind lessen the capital value of that property and thus tend to diminish the funds destined for the maintenance of productive labour. They are all somewhat unthrifty—taxes that increase the revenue of the sovereign, which seldom maintains any but unproductive labourers, at the expense of the capital of the people, which maintains none but productive labourers.

[In this paragraph Smith is in effect saying of these taxes that they satisfy (ii)–(iii)–(iv) but not (i) of his ‘maxims’ on page 224.] Even when they are proportioned to the value of the property transferred, such taxes are still **(i)** unequal because properties of equal value may differ in how frequently they are transferred. When they are not proportioned to this value—which is the case with most stamp duties and duties of registration—they are still more unequal. They are in no way **(ii)** arbitrary, but are or always can be perfectly clear and certain. Though they sometimes fall on the person who is not very able to pay, **(iii)** the time of payment is in most cases sufficiently

convenient for him. . . . **(iv)** They are levied at very little expense, and in general they subject the contributors to no inconvenience except the unavoidable one of paying the tax.

In France the stamp duties are not much complained of, registration duties *are*. They are said to give rise to much extortion by the officers of the tax-farmers [i.e. private businesses that collect taxes on behalf of the government], extortion that is in a great measure arbitrary and uncertain. In most of the pamphlets written against the present system of finances in France, the abuses of the registration-duty system loom large. But uncertainty does not seem to be necessarily inherent in the nature of such taxes. If the popular complaints are well founded, the abuse must arise not so much from the nature of the tax as from the lack of precision and clarity in the edicts or laws that impose it.

The registration of mortgages and of all other rights on immovable property gives great security both to creditors and purchasers, which makes it extremely advantageous to the public. The registration of most deeds of other kinds is often inconvenient and even dangerous to individuals, without any advantage to the public. All registers which it is accepted ought to be kept secret ought not to exist in the first place. The credit of individuals ought never to depend on such a slender security as the probity and religion of the lower officers of revenue. But where the fees of registration have been made a source of revenue to the sovereign, register-offices have commonly been multiplied without end, both for deeds that ought to be registered and for those that ought not. In France there are several sorts of secret registers. This abuse is a very natural effect of such taxes, though not perhaps a necessary one.

Stamp duties such as those in England on cards and dice, on newspapers and periodical pamphlets, etc. are really taxes on consumption; the final payment falls on the persons

who use or consume such commodities. Stamp duties such as those on licences to retail ale, wine, and spirituous liquors, though intended perhaps to fall on the profits of the retailers, are also finally paid by the consumers of those liquors. Such taxes are called by the same name as the stamp duties on the transference of property, and are levied by the same officers and in the same manner, but they are of a quite different nature and fall on quite different funds.

(3) Taxes on the wages of labour

I tried to show in Book I that the wages of the lower classes of workmen are everywhere necessarily regulated by •the demand for labour and •the ordinary or average price of provisions. . . . While the demand for labour and the price of provisions remain the same, a direct tax on the wages of labour can have no other effect, than to raise them. . . . Suppose that in a particular place the demand for labour and the price of provisions were such as to render 10/- a week the ordinary wages of labour; and that a 20% tax is imposed on wages. If the demand for labour and the price of provisions remain the same, a labourer in that place would still have to earn a subsistence that could be bought only for 10/- a week, meaning that after paying the tax he must have 10/- a week free wages. But in order to leave him such free wages after paying such a tax, the price of labour must soon rise not to 12/- a week only but to 12/6d; that is, to enable him to pay a 20% tax his wages must rise by 25%. Whatever was the proportion of the tax, the wages of labour must rise in a higher proportion. . . .

So a direct tax on the wages of labour, even if the labourer paid it out of his hand, could not properly be said to be even advanced by him; at least if the demand for labour and the average price of provisions remained the same after the tax as before it. In all such cases, not only the tax but something

more than the tax would in reality be advanced by the person who immediately employed him. The final payment would fall on different persons in different cases. The rise that such a tax might cause in the wages of manufacturing labour would be advanced by the master manufacturer, who would be entitled (indeed obliged) to add it with a profit to the price of his goods. So the final payment of this rise of wages, plus the additional profit of the master manufacturer, would fall on the consumer. The rise that such a tax might occasion in the wages of country labour would be advanced by the farmer, who would be obliged to employ more capital. In order to get this back, along with the ordinary profits of stock, he would have to retain a larger portion—i.e. the price of a larger portion—of the product of the land, and consequently to pay less rent to the landlord. In this case, therefore, the final payment of this rise of wages would fall on the landlord, along with the additional profit of the farmer who had advanced it. In all cases, a direct tax on the wages of labour must in the long run cause a greater reduction in the rent of land and a greater rise in the price of manufactured goods than would have followed from the proper assessment of a sum equal to the product of the tax, partly on the rent of land and partly on consumable commodities.

If direct taxes on the wages of labour have not always led to a proportional rise in those wages, that is because they have generally led to a fall in the demand for labour. Such taxes have generally led to •the decline of industry, •the decrease of employment for the poor, and •the lessening of the annual product of the land and labour of the country. In consequence of them, however, the price of labour must always be higher than it otherwise would have been in the actual state of the demand; and this increased price (along with the profit of those who advance it) must always be finally paid by the landlords and consumers. . . .

Absurd and destructive as such taxes are, they occur in many countries. [He gives examples from France and Bohemia; and then goes on to say that direct taxes on the incomes 'of ingenious artists, and of men of liberal professions' have the same effect as taxes on the incomes of 'inferior trades'. Then:]

The emoluments of offices [here = 'official governmental positions'] are not, like those of trades and professions, regulated by the free competition of the market, and are therefore not always proportional to what the nature of the employment requires. They are perhaps in most countries higher than it requires, because those who have the administration of government being generally disposed to reward themselves and their immediate dependents more than enough! In most cases, therefore, the emoluments of offices can very well bear to be taxed. Also, those who enjoy public offices (especially the more lucrative ones) are in all countries the objects of general envy; and a tax on their emoluments, even if it is higher than on any other sort of revenue, is always a very popular tax. In England when every other sort of income was supposed to be assessed at 4/- in the pound (for the land-tax), it was very popular to tax at 5/6d in the pound the salaries of offices that exceeded £100 a year; with the exception of the pensions of the younger branches of the royal family, the pay of the officers of the army and navy, and a few others less vulnerable to envy. There are in England no other direct taxes on the wages of labour.

(4) Taxes that are meant to apply equally to every kind of income

The taxes that are meant to fall equally on every kind of income are **(a)** capitation taxes, and **(b)** taxes on consumable commodities. Those must be paid from whatever income the contributors may possess—from the rent of their land, from

the profits of their stock, or from the wages of their labour.

(4a) Capitation taxes

If it is attempted to proportion capitation taxes to the fortune or income of each contributor, they become altogether arbitrary. The state of a man's fortune varies from day to day; and it can only be guessed at unless an inquisition more intolerable than any tax is renewed at least once every year. So his assessment must in most cases depend on the good or bad humour of his assessors, and must therefore be altogether arbitrary and uncertain.

If capitation taxes are proportioned not to each contributor's supposed fortune but to his rank, they become altogether unequal because the degrees of fortune are often unequal in the same degree of rank.

If it is attempted to make such taxes equal, they become altogether arbitrary and uncertain; and if it is attempted to make them certain and not arbitrary, they become altogether unequal. Let the tax be light or heavy, uncertainty is always a great grievance. In a light tax a considerable degree of inequality may be supported; in a heavy one it is intolerable.

[Smith gives a page to describing how capitation taxes have fared in France and in England. They have been damaging but lucrative in France; less of each in England, where 'the mild government' has not enforced them rigorously. He notes that as applied to 'the lower ranks of people' they are 'direct taxes on the wages of labour'. He sums up:] Capitation taxes are levied at little expense; and where they are rigorously exacted they provide a very sure revenue to the state. That is why they are very common in countries where the ease, comfort, and security of the lower ranks of people are little attended to. In general, however, only a small part of the public revenue of a large empire has ever come from such taxes; and the largest sum which they have

ever provided could always have been found in some other way much more convenient to the people.

(4b) Taxes on consumable commodities

The impossibility of taxing the people in proportion to their income by any capitation seems to have led to the invention of taxes on consumable commodities. The state, not knowing how to tax directly and proportionally the income of its subjects, tries to tax it indirectly by taxing their expenditure, which it is supposed will in most cases be nearly proportional to their income. This is done by taxing the consumable commodities on which their expenditure is laid out.

Consumable commodities are either necessities or luxuries.

By 'necessities' I understand not only the commodities that are indispensably necessary for the support of life but whatever the custom of the country makes it indecent for creditable [see Glossary] people, even of the lowest order, to be without. A linen shirt is not a necessity of life; the Greeks and Romans presumably lived very comfortably without having any linen. But through most of Europe these days a creditable day-labourer would be ashamed to appear in public without a linen shirt, the lack of which would be taken to indicate the disgraceful degree of poverty which (it is presumed) nobody can fall into without extreme bad conduct. In the same way custom has made leather shoes a necessity of life in England. The poorest creditable man or woman would be ashamed to appear in public without them. In Scotland, custom has made them a necessity of life for the lowest order of men, but not to the same order of women, who can without any discredit walk about barefooted. In France they are not necessities to men or to women; the lowest rank of both sexes appear there publicly, without any discredit, sometimes in wooden shoes and sometimes bare-

footed. Under 'necessities', therefore, I comprehend things that are necessary for the lowest rank of people, being made so either by nature or by the established rules of decency. All other things I call 'luxuries', without meaning this to throw the smallest degree of reproach on the temperate use of them. I count beer and ale, for example, as luxuries in Great Britain; also wine, even in the wine countries. A man of any rank may without any reproach abstain totally from such liquors. Nature does not make them necessary for the support of life, and custom nowhere makes it indecent to live without them.

... A tax on the necessities of life operates in exactly the same way as a direct tax on the wages of labour. Though the labourer may pay it out of his hand, he cannot for any considerable time be properly said even to advance it. It must always in the long run be advanced to him by his immediate employer. ... If he is a manufacturer the employer will raise the price of his goods to meet the rise of wages required by the tax, together with a profit, so that the final payment of the tax (together with this overcharge) will fall on the consumer. If the employer is a farmer, the final payment (together with a like overcharge) will fall on the rent of the landlord.

It is different with taxes on what I call luxuries, even on those of the poor. The rise in the price of the taxed commodities will not necessarily cause any rise in the wages of labour. A tax on tobacco, though a luxury of the poor as well as of the rich, will not raise wages. Though it is taxed in England at three times its original price and in France at fifteen times that, those high duties seem to have no effect on the wages of labour. The same thing maybe said of the taxes on tea and sugar, which in England and Holland have become luxuries of the lowest ranks of people; and of those on chocolate, which is said to have become so in Spain. ...

The high price of such commodities does not necessarily diminish the ability of the lower ranks of people to bring up families. For the sober and industrious poor, taxes on such commodities act as sumptuary [see Glossary] laws, disposing them to moderate or to refrain altogether from the use of superfluities that they can no longer easily afford. Because of this forced frugality, their ability to bring up families may often be *increased* by the tax. It is the sober and industrious poor who generally bring up the most numerous families, and who principally supply the demand for useful labour. The poor are indeed not all sober and industrious; and the dissolute and disorderly might continue to over-use such commodities after this rise of price in the same manner as before, without regarding the distress this indulgence might bring on their families. But such disorderly persons seldom raise numerous families because their children generally perish from neglect, mismanagement, and the scantiness or unwholesomeness of their food. If by the strength of their constitution they survive the hardships the bad conduct of their parents exposes them to, the example of that bad conduct commonly corrupts their morals; so that instead of being useful to society by their industry they become public nuisances by their vices and disorders. Though the advanced price of the luxuries of the poor, therefore, might increase somewhat the distress of such disorderly families, and thereby diminish somewhat their ability to bring up children, it probably would not diminish much the useful population of the country.

Any rise in the average price of necessities, unless it is made up for by a proportional rise in the wages of labour, is bound to lessen the ability of the poor to bring up large families, and (consequently) to supply the demand for useful labour. . . .

Taxes on luxuries have no tendency to raise the price of any *other* commodities; taxes on necessities necessarily tend, by raising the wages of labour, to raise the price of all manufactures, and consequently to diminish the extent of their sale and consumption. Taxes on luxuries are finally paid by the consumers of the commodities taxed, without any retribution [see Glossary]. They fall indiscriminately on every kind of income—the wages of labour, the profits of stock, and the rent of land. Taxes on necessities, so far as they affect the labouring poor, are finally paid partly •by landlords in the diminished rent of their lands and partly by •rich consumers. . . .in the higher price of manufactured goods; and always with a considerable overcharge. The raised price of manufactures that are real necessities of life and are destined for the consumption of the poor (coarse woollens, for example) must be compensated for to the poor by a further rise in their wages. The middling and higher ranks of people, if they understood their own interests, ought always to oppose all taxes on the necessities of life as well as all taxes on the wages of labour. The final payment of each falls entirely on themselves, and always with a considerable overcharge. They fall heaviest on the landlords, who always pay in a double capacity: as landlords, by the reduction of their rent; as rich consumers, by the increase of their expense. Sir Matthew Decker remarked that certain taxes are sometimes repeated and accumulated four or five times in the price of certain goods, and this is perfectly right as applied to taxes on the necessities of life. In the price of leather you must pay not only for

- the tax on the leather of your own shoes, but for
- a part of the tax on the shoes of the shoemaker and the tanner; also for
- the tax on the salt, soap, and candles that those workmen consume while employed in your service;

and for

- the tax on the leather that the salt-maker, the soap-maker, and the candle-maker consume while employed in their service.

In Great Britain, the principal taxes on the necessities of life are on the four commodities just mentioned—salt, leather, soap, and candles.

Salt is a very ancient and very universal subject of taxation. It was taxed among the Romans, and is taxed today, I believe, in every part of Europe. The amount annually consumed by any individual is so small, and can be purchased so gradually, that it seems to have been thought that nobody could feel even a pretty heavy tax on it. In England it is taxed at 3/4d a bushel—about three times its original price. In some other countries, the tax is still higher. Leather is a real necessity of life. The use of linen makes soap such. In countries where the winter nights are long, candles are a necessary instrument of trade. Leather and soap are taxed in Great Britain at 1½d a pound; candles at 1d; taxes which amount to about 9% on the original price of leather, about 22% on that of soap, and about 14% on that of candles. Though lighter than the tax on salt, these are still very heavy. As all those four commodities are real necessities of life, such heavy taxes on them must increase somewhat the expenses of the sober and industrious poor, and must consequently raise the wages of their labour.

In a country where the winters are as cold as in Great Britain, fuel is during winter in the strictest sense of the word a *necessity* of life, not only for cooking food but for the comfortable subsistence of many sorts of workmen who work within doors; and coal is the cheapest fuel. The price of fuel has such a large effect on the cost of labour that all over Great Britain manufactures have confined themselves principally to the coal counties. . . . If a **bounty** could ever be

reasonable, it might be so on the transport of coal from the parts of the country where there is plenty of coal to those in which there is not. But the legislature has instead imposed a **tax** of 3/3d a ton on coal carried along the coast, which on most sorts of coal is more than 60% of the original price at the coal pit. Coal carried by land or on canals pays no duty. Where it is naturally cheap, coal is consumed duty free; where it is naturally dear, it is burdened with a heavy duty.

Though such taxes raise the price of subsistence and consequently the wages of labour, they provide government with a considerable revenue that it might not be easy to find in any other way; so there may be good reasons for continuing them. [Smith contrasts this with the bounty on the export of corn, high duties on the import of foreign corn, and the prohibition of the import of live cattle or salt provisions, all of which he says do harm and produce no revenue.]

[Smith now writes about the disastrously high taxes on flour and meal in some countries, and reports that] a French author of some note has proposed to reform the finances of his country by replacing most other taxes by this most ruinous of all taxes. There is nothing so absurd, says Cicero, that it has not sometimes been asserted by some philosophers.

Taxes on butcher's meat are still more common than those on bread. It may indeed be doubted whether butcher's meat is anywhere a necessity of life. It is known from experience that grain and other vegetables—with the help of milk, cheese, and butter (or, failing butter, oil)—can without any butcher's meat provide the most plentiful, wholesome, nourishing, and invigorating diet. Decency nowhere requires that any man should eat butcher's meat, as it in most places requires that he should wear a linen shirt or leather shoes.

Consumable commodities, whether necessities or luxuries, can be taxed in two ways. **(a)** In one, the consumer pays an annual sum on account of his using or consuming goods of a certain kind; **(b)** in the other, the goods are taxed before they pass from the dealer to the consumer. Consumable goods that last a considerable time before they are consumed altogether are most properly taxed in manner **(a)**; those of which the consumption is either immediate or more speedy in manner **(b)**. Taxes on coaches and plate are examples of **(a)**; most of the other duties of excise and customs are examples of **(b)**.

A coach may last ten years. It might be taxed once for all before it leaves the coach-maker; but it is more convenient for the buyer to pay £4 a year for the privilege of keeping a coach than to pay the coach-maker an additional £40 all at once. . . . A service of plate may last more than a century. It is certainly easier for the consumer to pay 5/- a year for every 100oz of plate—near 1% of the value—than to redeem this long annuity at 25 years purchase, which would enhance the price at least 25%. The taxes that affect houses are more conveniently paid by moderate annual payments than by a heavy tax of equal value on the first building or sale of the house.

Sir Matthew Decker made a well-known proposal that all commodities, even those of which the consumption is either immediate or speedy, should be taxed in manner **(a)**—the dealer advancing nothing, and the consumer paying a certain annual sum for the licence to consume certain goods. The aim of this was to promote foreign trade, especially the carrying trade, by abolishing all duties on import and export, thereby enabling the merchant to employ his whole capital and credit in the purchase of goods and the freight of ships. . . . But it seems to be open to four objections.

(1) The tax would be unfair. The taxes on ale, wine, and spirituous liquors that are advanced by the dealers are finally paid by the consumers, exactly in proportion to their respective consumption. If the tax were paid by purchasing a licence to drink those liquors, the sober man would, in proportion to his consumption, be taxed much more heavily than the drunken one. . . .

(2) This mode of taxation—paying for an annual, half-yearly, or quarterly licence to consume certain goods—would greatly lessen one of the principal conveniences of taxes on goods of speedy consumption, namely the piecemeal payment. In the price of $3\frac{1}{2}d$ which is at present paid for a pot of porter, the taxes on malt, hops, and beer—together with the extra profit the brewer charges for having advanced them—amount perhaps to about $1\frac{1}{2}d$. If a workman can conveniently spare that he buys a pot of porter. If he cannot, he contents himself with a pint; and, as a penny saved is a penny earned, he thus gains $\frac{1}{4}d$ by his temperance. He pays the tax piecemeal, as he can afford to pay it and *when* he can afford to pay it; every act of payment is perfectly voluntary—something he can avoid if he chooses to do so.

(3) Such taxes would operate less as sumptuary laws. Once the licence was purchased, the purchaser's tax would be the same, however much or little he drank.

(4) If a workman had to pay all at once—by yearly, half-yearly, or quarterly payments—a tax equal to what he now pays with little or no inconvenience on all the pots and pints of porter that he drinks in any such period of time, the sum might often distress him very much.

So it seems obvious that this **(a)** mode of taxation could never without the most grievous oppression produce a revenue anywhere near what is derived from the present **(b)** mode without any oppression. . . .

[Smith now devotes about four pages to information, some of it historical, about ‘the duties of excise on goods of home product’ and ‘the duties of customs’ aimed at foreign imports. He is hostile to nearly all import duties, as burdensome, unprofitable, and monopolistic. Some remarks of his about smuggling are worth noting:]

High taxes, sometimes by lessening the consumption of the taxed commodities and sometimes by encouraging smuggling, often provide a smaller revenue to government than what might be drawn from more moderate taxes.

When the lessening of revenue is the effect of the lessening of consumption, the only remedy is to lower the tax. When it is the effect of the encouragement given to smuggling, it may be remedied either by lessening the temptation to smuggle or by increasing the difficulty of smuggling. The temptation to smuggle can be lessened only by lowering the tax; and the difficulty of smuggling can be increased only by establishing the system of administration that is most proper for preventing it.

Experience leads me to believe that the excise laws obstruct and embarrass the operations of the smuggler much more effectively than those of the customs. By introducing into the customs a system of administration as similar to that of the excise as the nature of the duties will admit, the difficulty of smuggling might be very much increased. Many people think that this alteration could easily be brought about.

·A SUGGESTION FOR AN IMPROVED SYSTEM OF CUSTOMS·

What has been proposed is a system in which the following is the case.

The importer of commodities liable to any duties of customs can choose between **(i)** taking them to his own private warehouse and **(ii)** storing them in a

warehouse, provided at his own expense or at that of the public, but under the key of the custom-house officer and never to be opened except in that officer’s presence. If he takes them to his own private warehouse, the duties are to be immediately paid and never afterwards refunded; and that warehouse is to be at all times subject to examination by the custom-house officer to ascertain how far the quantity contained in it corresponds with that for which the duty has been paid. If he takes them to the public warehouse, no duty is to be paid until they are taken out for home consumption. If they are taken out for export, they are to be duty-free, with proper care being taken that they really are so exported. . . .

What are called the excise duties on imported rum are at present levied in this manner; and the same system might be extended to all duties on imported goods, provided that those duties were—like the duties of excise—confined to a few sorts of goods of the most general use and consumption. If they were extended to almost all sorts of goods, as at present, large enough public warehouses could not easily be provided; and goods of a very delicate nature, or ones whose preservation required much care and attention, could not safely be trusted by the merchant in any warehouse but his own.

If by such a system of administration smuggling could be mostly prevented, even under pretty high duties; and if every duty was occasionally raised or lowered according as it was most likely to provide the greater revenue to the state (taxation always being employed as an instrument of revenue, and never of monopoly); it seems likely enough that a revenue at least equal to the present net revenue of the customs might be drawn from duties on the import of only a few sorts of goods of the most general use and consumption;

and that the duties of customs might thus be brought to the same degree of simplicity, certainty, and precision as those of excise. . . .

If by such a change of system the public revenue suffered no loss, the trade and manufactures of the country would certainly gain a considerable advantage. The trade in the commodities not taxed, by far the greatest number, would be perfectly free and could be carried on to and from all parts of the world with every possible advantage. [He explains the advantages, mainly repeating things said earlier.]

The famous excise scheme of Sir Robert Walpole was meant to establish, with regard to wine and tobacco, a system like the one proposed here. The bill brought into Parliament covered those two commodities only, but it was generally supposed to be intended as an introduction to a more extensive scheme of the same kind. Faction, combined with the interests of smuggling merchants, raised such a violent (though such an unjust) clamour against the bill that the minister thought proper to drop it; and, from a dread of exciting a clamour of the same kind none of his successors have dared to resume the project.

The duties on foreign luxuries imported for home consumption, though they sometimes fall on the poor, fall principally on people of middling or more than middling fortune—for example the duties on foreign wines, on coffee, chocolate, tea, sugar, etc.

The duties on the cheaper luxuries of home produce, destined for home consumption, fall pretty equally on people at all levels in proportion to their respective expenditures. The poor pay the duties on malt, hops, beer, and ale on their own consumption; the rich on both their own consumption and that of their servants.

In every country the whole consumption and the whole expenditure of the lower ranks of people—i.e. those below

the middling rank—is much greater in quantity and in value than that of the ranks above them. There are four strands in this fact. **(a)** Almost the whole capital of every country is annually distributed among the lower ranks of people, as the wages of productive labour. **(b)** A large part of the revenue arising from the rent of land and the profits of stock is annually distributed among the same rank, in the wages and maintenance of domestic servants and other unproductive labourers. **(c)** Some part of the profits of stock belongs to the same rank, as a revenue arising from the employment of their small amounts of capital. The amount of the profits annually made by small shopkeepers, tradesmen, and retailers of all kinds is everywhere very considerable and makes a very considerable portion of the annual product. **(d)** Some part even of the rent of land belongs to the same rank; a considerable part to those who are somewhat below the middling rank and a small part even of the lowest rank—some common labourers own an acre or two of land. The expenditure of those lower ranks of people, taking them individually, is very small; but the whole mass of it, taking them collectively, amounts to by far the largest portion of the whole expenditure of the society; what remains of the annual product of the land and labour of the country for the consumption of the higher ranks being always much less in quantity and in value. So the taxes on expenditure that fall chiefly on the expenditure of the higher ranks of people (and thus on the smaller portion of the annual product) are likely to be much less productive than those that fall indiscriminately on the expenditure of all ranks or even those that fall chiefly on that of the lower ranks. . . . Thus the excise on the materials and manufacture of home-made fermented and spirituous liquors is by far the most productive of all the taxes on expenditure; and this branch of the excise falls very much, perhaps principally, on the expenditure of the common people. In a recent year

the gross product of this branch of the excise amounted to nearly £3,342,000.

It must always be remembered, however, that only luxuries of the lower ranks of people ought ever to be taxed, and not their necessary expenditure. The final payment of any tax on their necessary expenditure would fall entirely on the higher ranks of people, and thus on the smaller portion of the annual product. Such a tax must •raise the wages of labour or •lessen the demand for it. If it raised the wages of labour it would throw the final payment of the tax on the higher ranks of people. If it lessened the demand for labour, that would lessen the annual product of the country's land and labour, the fund on which all taxes must be finally paid. Whatever might be the state to which a tax of this kind reduced the demand for labour, it must raise wages higher than they otherwise would be in that state; and the final payment of this enhancement of wages must always fall on the higher ranks of people.

Fermented liquors brewed, and spiritous liquors distilled, not for sale but for private use are not in Great Britain liable to any duties of excise. This exemption, intended to save private families from the odious visit and examination of the tax-gatherer, causes the burden of those duties to fall often much more lightly on the rich than on the poor. It is not indeed very common ·in towns· to distill for private use; but in the country many middling families and almost all rich and great ones brew their own beer. [He goes into details about how much cheaper home-brewed beer is for the rich than pub-bought beer is for the poor; and suggests a way in which this could be rectified, namely by taxing home-brewed beer—as malt is taxed—at a flat rate per person per year. He then embarks on several pages of numerical details about the tax on malt. A thread running through this is the claim that taxes on malt are harder to defeat—to

cheat by smuggling—than taxes on spirits. This leads to a suggested reform:]

By increasing the duties on malt, and reducing those on the distillery, both the opportunities and the temptation to smuggle would be diminished, which might lead to a still further increase of revenue.

It has for some time been the policy of Great Britain to discourage the consumption of spiritous liquors because of their supposed tendency to ruin the health and corrupt the morals of the common people. According to this policy, the taxes on the distillery ought not to be lessened enough to reduce the price of those liquors. Spirituous liquors might remain as dear as ever; while the wholesome and invigorating liquors of beer and ale might be considerably reduced in their price. The people might thus be in part relieved from one of the burdens they complain about the most; while the revenue might be considerably increased.

[Smith reports three objections that have been made to this suggested reform, and counters each. Then:] The only people likely to suffer by the change of system here proposed are those who brew for their own private use. But this higher rank's exemption from very heavy taxes that are paid by the poor labourer and artificer is surely most unjust and unfair; it ought to be taken away, even if the proposed reform never takes place. It has probably been the interest of this higher order of people that has so far prevented a change of system that would pretty certainly increase the revenue and relieve the people.

Besides such duties as those of custom and excise above mentioned, there are several others which affect the price of goods more unequally and more indirectly. [He describes and criticises some of these; briefly discusses the idea of luxury-taxes on someone whose income comes from one country while he lives in another; and then moves on to some

general points about taxes on luxuries:] Their great merit is that every man's contribution is altogether voluntary, it being entirely up to him whether does or does not consume the taxed commodity. **(i)** Where such taxes are properly assessed, and on proper commodities, they are paid with less grumbling than any other. When they are advanced by the merchant or manufacturer, the consumer who finally pays them soon comes to confound them with the price of the commodities and almost forgets that he pays any tax. **(ii)** Such taxes can be perfectly certain, being assessed so as to leave no doubt about what ought to be paid or when it ought to be paid. . . . Whatever uncertainty there may sometimes be in the duties of customs in Great Britain or other countries, it cannot arise from the nature of those duties, but from the inaccurate or unskilful wording of the law that imposes them. **(iii)** Taxes on luxuries generally are (and could always be) paid piecemeal, i.e. in proportion as the contributors have occasion to purchase the goods on which they are imposed. In the time and mode of payment, they are, or can be, of all taxes the most convenient.

On the whole, therefore, such taxes are perhaps as agreeable as any other to the general maxims **(i)–(iii)** concerning taxation [see page 224].

They offend in every respect against maxim **(iv)**. In proportion to what they bring into the public treasury of the state, such taxes always take (or keep) out of the pockets of the people more than almost any other taxes. They seem to do this in all the four ways in which it is possible to do it.

(1) The levying of such taxes, even when imposed in the most judicious manner, requires many custom-house and excise officers whose salaries and perquisites are a real tax on the people and bring nothing into the treasury of the state. This expense is admittedly more moderate in Great Britain than in most other countries. [He gives details, including

this: 'the perquisites of custom-house officers are everywhere much greater than their salaries', leading on to this thought:] The officers of excise receive few or no perquisites; and the administration of that branch of the revenue, being of more recent establishment, is in general less corrupted than that of the customs, into which length of time has introduced and authorised many abuses. . . .

(2) Such taxes inevitably create some obstruction or discouragement to certain branches of industry. As they always raise the price of the taxed commodity, they so far discourage its consumption and consequently its production. If it is a commodity of home growth or manufacture, less labour comes to be employed in raising and producing it. If it is a foreign commodity, the commodities of the same kind that are made at home may gain some advantage in the home market, and more domestic industry may thereby be turned towards preparing them. But though this rise of price in a foreign commodity may encourage domestic industry in one particular branch, it necessarily discourages that industry in almost every other. The dearer the Birmingham manufacturer buys his foreign wine, the cheaper he necessarily sells that part of his hardware with the price of which he buys it. So that part of his hardware becomes of less value to him, and he has less encouragement to work at it. The dearer the consumers in one country pay for the surplus product of another, the cheaper they sell that part of their own surplus product with the price of which, they buy it. That part of their own surplus product becomes of less value to them, and they have less encouragement to increase its quantity. So all taxes on consumable commodities tend to reduce the quantity of productive labour below what it otherwise would be, . . . and to alter somewhat the natural direction of national industry, turning it into a channel always different from and usually less advantageous than that in which it

would have run of its own accord.

(3) The hope of evading such taxes by smuggling often leads to forfeitures and other penalties that entirely ruin the smuggler. Though he is no doubt highly blameable for violating the laws of his country, he is often incapable of violating the laws of natural justice, and would have been in every way an excellent citizen if the laws of his country had not made into a crime something that nature never meant to be so. . . . Not many people are scrupulous about smuggling when they can find an easy and safe opportunity of smuggling without committing perjury. Though buying smuggled goods is a clear encouragement to the violation of the revenue laws and to the perjury that almost always goes with it, claiming to have any scruple about doing it would in most countries be regarded as one of those pedantic pieces of hypocrisy that serve only to expose the person to the suspicion of being a greater knave than most of his neighbours. By this indulgence of the public, the smuggler is often encouraged to continue a trade which he is thus taught to consider as in some measure innocent; and when the severity of the revenue laws is ready to fall on him, he is often disposed to defend with violence what he has been accustomed to regard as his just property. Starting by being imprudent rather than criminal, he too often eventually becomes one of the hardest and most determined violators of the laws of society. . . .

(4) Such taxes subject the dealers in the taxed commodities to the frequent visits and odious examination of the tax-gatherers, exposing them sometimes to some degree of oppression and always to much trouble and vexation. I have already remarked that vexation is not strictly speaking expense, but it is certainly equivalent to the expense at which every man would be willing to redeem himself from it. . . .

But the inconveniences that may be in some degree inseparable from taxes on consumable commodities fall as lightly on the people of Great Britain as on those of any other country whose government has comparable expenses. Our state is not perfect and might be mended; but it is as good as, or better than, that of most of our neighbours.

[Smith ends this vast chapter with about eight pages on various taxes and duties in other European countries, all of which he thinks are much less well served in this respect than is Great Britain. His criticisms of them mainly focus on •the number of different commodities that are taxed, •duties on the movement of commodities from place to place within a single country, and •the use of tax-farmers, i.e. private businesses that collect taxes on behalf of the government.]

Chapter 3: Public debts

I have tried to show in Book III that in the rude [see Glossary] state of society that precedes the extension of commerce and the improvement of manufactures, . . . the only way a person who has a large income can spend or enjoy it is maintaining nearly as many people as it can maintain. A large income can be said to consist at all times in the command of a large quantity of the necessities of life. In that rude state of things, it is commonly paid in a large quantity of those necessities—the materials of plain food and coarse clothing, corn and cattle, wool and raw hides. When neither commerce nor manufactures provide anything for which the owner can exchange the materials that are over and above his own consumption, all he can do with the surplus is to feed and clothe nearly as many people as it will feed and clothe. In the rude state of society the principal expenses of the rich and the great are •hospitality in which there is no luxury and •liberality in which there is no ostentation; and these. . . .are

expenses by which people are not very apt to ruin themselves. . . . Among our feudal ancestors, the long time during which estates used to continue in the same family sufficiently demonstrates people's general disposition to live within their income. Whatever we think about the rustic hospitality constantly exercised by the great landholders, . . . we must grant that they were at least frugal enough not to spend their whole income. They could usually sell some of their wool and raw hides for money, some of which might be spent in purchasing the few objects of vanity and luxury that were then available; but they seem commonly to have hoarded some of it. What else could they do with whatever money they saved? To trade was disgraceful to a gentleman; and to lend money at interest ('usury') was at that time prohibited by law. Also, in those times of violence and disorder it was convenient to have a hoard of money at hand, so that if they were driven from their own home they might have something of known value to carry with them to a place of safety. The violence that made it convenient to hoard made it equally convenient to conceal the hoard. The frequency of treasure-trove of which no owner was known sufficiently demonstrates the frequency in those times of hoarding and of concealing the hoard. Treasure-trove was *then* considered as an important part of the sovereign's revenue; whereas *now* all the treasure-trove of the kingdom would hardly be an important part of the income of a private gentleman of a good estate.

The disposition to save and to hoard prevailed in the sovereign as well as in his subjects. As I said in Book IV, the sovereign of a nation to which commerce and manufacture are little known is in a situation that naturally disposes him to the parsimony needed for accumulation. In that situation, the expense even of a sovereign cannot be directed by the vanity that delights in the gaudy finery of a court. The

ignorance of the times provides few of the trinkets in which that finery consists. Standing armies are not then necessary; so that the expense of a sovereign, like that of any other great lord, can hardly be employed in anything but bounty to his tenants and hospitality to his retainers. But bounty and hospitality seldom lead to extravagance, though vanity almost always does. . . .

In a commercial country abounding with every sort of expensive luxury, the sovereign—like nearly all the great proprietors in his dominions—naturally spends much of his revenue in purchasing those luxuries. His country and its neighbours supply him abundantly with all the costly trinkets that compose the splendid but insignificant pageantry of a court. For the sake of lesser pageantry of the same kind, his nobles dismiss their retainers, make their tenants independent, and gradually become, themselves, as insignificant as most of the wealthy burghers in his dominions. The same frivolous passions which influence their conduct influence his. How can it be supposed that he should be the only rich man in his dominions who is insensible to pleasures of this kind? If he does not spend so much on those pleasures that he weakens the defensive power of the state (which it is very likely that he *will* do), he can hardly be expected not to spend on them all of his revenue except what is needed for defensive purposes. His ordinary expense becomes equal to his ordinary revenue, and it is well if it does not often exceed it. The amassing of treasure can no longer be expected; and when special needs require special expenditure he must call on his subjects for special aid. The present and the late king of Prussia are the only great princes of Europe, who since the death of Henry IV of France in 1610 are supposed to have amassed any considerable treasure. The parsimony that leads to accumulation has become almost as rare in republican as in

monarchical governments. The Italian republics, the United Provinces of the Netherlands, are all in debt. The canton of Berne is the only republic in Europe that has amassed any considerable treasure. The other Swiss republics have not. The taste for some sort of pageantry—for splendid buildings at least, and other public ornaments—often prevails as much in the apparently sober senate-house of a little republic as in the dissipated court of the greatest king.

Lack of parsimony in time of peace makes it necessary to go into debt in time of war. When war comes, there is no money in the treasury except what is needed for carrying on the ordinary expense of the peace establishment. In war, an establishment of three or four times that expense becomes necessary for the defence of the state, and consequently a revenue three or four times larger than the peace revenue is needed. Even if the sovereign has (as he hardly ever does) the immediate means of increasing his revenue to match the increase of his expenditure, this increase must come from taxes, and there will be a delay—perhaps ten or twelve months—before it begins to come into the treasury. But the moment war appears likely to begin, the army must be increased, the fleet must be fitted out, the garrisoned towns must be put into a posture of defence; that army, that fleet, those garrisoned towns, must be provided with arms, ammunition, and provisions; and all this cannot wait for the gradual and slow returns of the new taxes. In this emergency government has to borrow.

The same commercial state of society that (by the operation of moral [here = 'psychological'] causes) brings government in this manner into the necessity to borrow produces in the subjects both an ability and an inclination to lend. . . .

A country abounding with merchants and manufacturers necessarily abounds with a set of people through whose hands their own capital *and* the capital of all those who

lend them money or trust them with goods pass at least as often as the income of a private man who lives on his income without trade or business passes through *his* hands. The income of such a man can regularly pass through his hands only once in a year. But the whole amount of the capital and credit of a merchant who deals in a trade of which the returns are very quick may sometimes pass through his hands up to four times in a year. A country abounding with merchants and manufacturers, therefore, necessarily abounds with a set of people who at all times have it in their power to advance a large sum of money to government. Hence the ability in the subjects of a commercial state to lend.

Commerce and manufactures can seldom flourish long in any state where

- there is not a regular administration of justice,
- the people do not feel themselves secure in the possession of their property,
- the faith of contracts is not supported by law, and
- the authority of the state is not supposed to be regularly employed in enforcing the payment of debts by all who can pay.

Commerce and manufactures, in short, can seldom flourish in any state where there is not a certain degree of confidence in the justice of government. The same confidence that disposes great merchants and manufacturers on ordinary occasions to trust a government to *protect* their property also disposes them on extraordinary occasions to trust that government with the *use* of their property. By lending money to government they do not lessen their ability to carry on their trade and manufactures; on the contrary, they commonly increase it. The needs of the state usually make government willing to borrow on terms extremely advantageous to the lender. The security it grants to the original creditor is

made transferable to any other creditor; and because of the universal confidence in the justice of the state, that security generally sells in the market for more than was originally paid for it. The merchant or moneyed man makes money by lending money to government, thus increasing his trading capital. So he generally considers it as a favour when the administration admits him to a share in the first subscription for a new loan. Hence the inclination or willingness in the subjects of a commercial state to lend.

The government of such a state is very apt to rely on this ability and willingness of its subjects to lend it their money on special occasions. It foresees the ease of borrowing, and therefore dispenses itself from the duty of saving.

[Smith then explains why 'in a rude state of society' few people *could* and no sensible person *would* lend to government.]

The growth of the enormous debts that at present oppress all the large nations of Europe, and in the long run will probably ruin them, has been pretty uniform. Nations, like private men, have generally begun to borrow on **(a)** what may be called personal credit, without assigning or mortgaging any particular fund for the payment of the debt; and when this resource has failed them they have gone on to borrow on **(b)** assignments or mortgages of particular funds.

The so-called 'unfunded debt' of Great Britain is contracted in manner **(a)**. It consists partly in a debt that is supposed to bear no interest, and resembles the debts that a private man contracts on account; and partly in a debt that bears interest, and resembles what a private man contracts on his bill or promissory-note. [Smith now gives a very technical recital of details. Then:]

When **(a)** this resource is exhausted, and money has to be raised by **(b)** assigning or mortgaging some particular branch of the public revenue for the payment of the debt,

government has at different times done this in two ways: by making this assignment or mortgage

- for a short period of time only, e.g. a year or a few years, the fund being supposed sufficient to pay within that time both principal and interest. or
- for perpetuity, the fund being supposed sufficient to pay only the interest (or a perpetual annuity equivalent to it), with government being free to stop this at any time by paying back the principal.

Technical terms: money raised in the former way was raised by **anticipation**; money raised in the other way was raised by **perpetual funding**.

In Great Britain the annual land and malt taxes are anticipated every year by virtue of a borrowing clause constantly inserted into the acts that impose them. The bank of England generally advances at interest. . . .the sums of which those taxes are granted, and receives payment as their product gradually comes in. There is always a deficiency, which is provided for in the supplies of the following year. Thus, the only considerable branch of the public revenue that is still unmortgaged is regularly spent before it comes in. Like an improvident spendthrift whose pressing needs will not allow him to wait for the regular payment of his income, the state constantly borrows from its own factors and agents, paying interest for the use of its own money.

In the reign of King William and through much of Queen Anne's, before we had become as familiar as we are now with the practice of perpetual funding, most new taxes were imposed for only a short period of time (from four to seven years), and many of the grants of every year consisted in loans on anticipations of the product of those taxes. Because the product was often insufficient for paying within the limited term the principal and interest of the money borrowed, deficiencies arose; and to deal with these it became necessary

to prolong the term.

[Smith devotes more than a page to details of successive lengthenings through 1711–1717 of the term, creating new ‘anticipations’ to pay off old ones, culminating in the change of many of these always-failing ‘anticipation’ borrowings to the ‘perpetual’ status in which only the interest was to be paid.]

If money had never been raised other than by anticipation, the course of a few years would have liberated the public revenue, with no attention from government besides except that of •not overloading the fund by charging it with more debt than it could pay within the limited term, and •not of anticipating a second time before the expiration of the first anticipation. But most European governments have been incapable of those attentions. They have often overloaded the fund even on the first anticipation; and when they didn’t, they have generally taken care to overload it—by anticipating a second and a third time—before the expiration of the first anticipation. [The phrase ‘taken care’ is meant sarcastically.] The fund becoming in this way insufficient for paying both principal and interest, it became necessary to charge it with only the interest (or a perpetual annuity equal to it); and such spendthrift anticipations necessarily led to the more ruinous practice of perpetual funding. But though this practice necessarily puts off the liberation of the public revenue from a fixed period to one so indefinite that it is not very likely ever to arrive, more money can always be raised by this new practice than by the old one of anticipation; so the new one, once men have become familiar with it, has been universally preferred to the other as a way of dealing with the great needs of the state. Those immediately concerned in the administration of public affairs always focus on the present need; they leave the future liberation of the public revenue to the care of posterity.

During the reign of Queen Anne, the market rate of interest had fallen from 6% to 5%, and in the twelfth year of her reign 5% was declared to be the highest rate that could lawfully be taken for money borrowed on private security. [Smith goes into some rather technical details of a sequence of events in which a public fund from which public debts are to be paid grows larger through successive reductions in the interest rate. A little oddly, this ever-growing fund was called the **sinking fund**.]

A sinking fund, though instituted for the payment of old debts greatly facilitates the contracting of new ones. It is a subsidiary fund, always at hand, to be mortgaged in aid of any other doubtful fund on which money is proposed to be raised in any exigency of the state. Whether the sinking fund of Great Britain has been more often applied to the one or to other of those two purposes will sufficiently appear in due course.

Besides those two methods of borrowing, by anticipations and by a perpetual funding, there are two other methods that hold a sort of middle place between them: •borrowing on annuities for terms of years and •borrowing on annuities for lives. [Smith offers a couple of pages about these. Then:]

Because the ordinary peacetime expenditure of most modern governments is roughly equal to their ordinary revenue, when war comes they are unwilling and unable to increase their revenue in proportion to the increase of their expenses: unwilling for fear of offending the people, who would soon be disgusted with the war if there were a large and sudden increase of taxes; and unable because they don’t know what taxes would be sufficient to produce the needed revenue. The ease of borrowing delivers them from the embarrassment that this fear and inability would otherwise cause. Borrowing enables them with a very moderate increase of taxes to raise, from year to year, enough money to carry on the war; and

perpetual funding enables them with the smallest possible increase of taxes to raise annually the largest possible sum of money. In large empires, many of the people who live in the capital city and in provinces remote from the scene of action feel hardly any inconvenience from the war, but enjoy at their ease the pastime of reading in the newspapers the exploits of their own fleets and armies. To them this pastime compensates for the small difference between the taxes they pay on account of the war and their usual peacetime taxes. They are commonly dissatisfied with the return of peace, which puts an end to their pastime and to a thousand visionary hopes of conquest and national glory from a longer continuance of the war.

The return of peace, indeed, seldom relieves them from most of the taxes imposed during the war. These are mortgaged for the interest of the debt contracted, in order to carry it on. If the old revenue together with the new taxes produce some surplus revenue—over and above paying the interest of this debt and defraying the ordinary expense of government—it *can* be converted into a sinking fund for paying off the debt. But **(i)** this sinking fund, even if applied to no other purpose, is generally quite inadequate for paying, in the course of any period during which it can reasonably be expected that peace should continue, the whole debt contracted during the war; and **(ii)** this sinking fund is almost always applied to other purposes. . . .

During the most profound peace various events occur that require an extraordinary expense; and government always finds it more convenient to meet this expense by misapplying the sinking fund than by imposing a new tax. Every new tax is immediately somewhat felt by the people. It always creates some murmur and meets with some opposition. The more taxes have been multiplied and the higher they have been raised on every subject of taxation, the more loudly the

people complain of every new tax; and the more difficult it becomes to find new subjects of taxation or to raise much higher the taxes already imposed on the old. A momentary suspension of the payment of debt is not immediately felt by the people, and generates neither murmur nor complaint. Borrowing from the sinking fund is always an obvious and easy way out of the present difficulty. The more the public debts have been accumulated and the more necessary it is to work to reduce them, the more ruinous it is to misapply any part of the sinking fund; the less likely the public debt is to be reduced to any considerable degree, the more likely it is that the sinking fund will be misapplied to defraying the extraordinary expenses that occur in time of peace. When a nation is already overburdened with taxes, nothing but

- the necessities of a new war,
- the animosity of national vengeance, or
- the anxiety for national security,

can induce the people to submit with tolerable patience to a new tax. Hence the usual misapplication of the sinking fund.

In Great Britain, from the time that we first had recourse to the ruinous expedient of perpetual funding, the reduction of the public debt in peacetime has been out of all proportion to its growth in time of war. The foundation of the present enormous debt of Great Britain was first laid in the war that began in 1668 and was ended by the treaty of Ryswick in 1697. [Smith spends several pages of details about the subsequent further growth of the British debt, and justifying his opposition to it. One episode in the justification is this:]

In the payment of the interest of the public debt, it has been said, the right hand pays the left: the money does not go out of the country; it is only a part of the revenue of one set of inhabitants that is transferred to another, and the nation is not a farthing poorer. This defence is

entirely based on the sophistry of the mercantile system; and after my long examination of that system ·in Book IV, chapter 1· it may be unnecessary to say anything more about it. Anyway, it supposes that the whole public debt is owed to the inhabitants of the country, which happens not to be true; the Dutch and several other foreign nations have a very considerable share in our public funds.

But even if the whole debt were owed to the inhabitants of the country, that would not make it less pernicious. [Smith now embarks on his perhaps-‘unnecessary’ explanation of what is wrong with the mercantile system’s defence of public debt.]

Land and capital stock are the two original sources of all private and public revenue. Capital stock pays the wages of productive labour in agriculture, manufactures, and commerce. The management of those two original sources of revenue belongs to two sets of people: the proprietors of land and the owners or employers of capital stock.

The proprietor of **land** is interested. . . .to keep his estate in as good a condition as he can. . . . His income may be so much diminished by different duties on the necessities and conveniences of life. . . .that he may find himself altogether unable to make or maintain those expensive improvements. And when the landlord ceases to do his part, it is impossible for the tenant to continue to do his. As the landlord’s distress increases, the country’s agriculture inevitably declines.

When the owners and employers of capital **stock** find that the income they derive from it will not in a particular country—because of its different taxes on the necessities and conveniences of life—purchase as much of those necessities and conveniences as an equal income would purchase in almost any other country, they will be disposed to move abroad. And when. . . .most of the employers of large amounts of capital come to be continually exposed to the mortifying and vexatious visits of the tax-gatherers, this

disposition to move will soon become an actual emigration. The country’s industry will inevitably fall with the removal of the capital that supported it, and the ruin of trade and manufactures will follow the decline of agriculture.

To transfer from the owners of those two great sources of income (**land** and capital **stock**) most of the income arising from either, transferring it from

- the persons immediately interested in the good condition of every particular portion of land, and in the good management of every particular portion of capital stock, to
- another set of persons, the creditors of the public, who have no such particular interest

must eventually lead to the neglect of land and the waste or removal of capital stock. No doubt a creditor of the public has a general interest in the prosperity of the agriculture, manufactures, and commerce of the country, and consequently in the good condition of its land and the good management of its capital stock. Should there be any general failure or decline in any of these things, the product of the different taxes might no longer be sufficient to pay him the annuity or interest that is due to him. But a creditor of the public, considered merely as such, has no interest in the good condition of any particular portion of land, or in the good management of any particular portion of capital stock. As a creditor of the public he has no knowledge of any such particular portion. He has no inspection of it. He can have no care about it. Its ruin may in some cases be unknown to him and cannot directly affect him.

[Smith writes about various European countries that have been ‘enfeebled’ by debt. Great Britain has fared better, he admits, but ‘it ought to be remembered that when the wisest government has exhausted all the proper subjects of taxation, it must in cases of urgent necessity resort to improper ones’,

and also:] Although Great Britain seems to support with ease a burden which 50 years ago no-one believed her capable of supporting, let us not rashly infer that she is capable of supporting any burden; nor even be too confident that she could support without great distress a burden a little larger than what has already been laid on her.

When national debts have once grown to a certain size there is I believe hardly a single instance of their being fairly and completely paid. Freeing the public revenue from debt, if it has ever been brought about at all, has always been brought about by a bankruptcy—sometimes an avowed one, often a bankruptcy in the form of a pretended payment.

[Smith writes about ‘the most usual’ way of disguising a bankruptcy as a payment, namely by ‘raising the denomination of the coin’, e.g. announcing that the coin which has until now counted as 6d is from now on to count as 1/- . Though deplorable, he says, this conduct is at least open, unlike the alternative procedure of debasing the coinage, e.g. taking £100 in silver, melting it down, mixing it with base metal, and minting the result into coins valued at £200. This practice goes back as far as Rome at the time of the Punic wars. Sometimes, as under Henry VIII, both procedures have been used at once.]

It seems altogether in vain to expect that the public revenue of Great Britain can ever be completely freed from debt—or even that any considerable progress can ever be made towards that liberation—while the surplus of that revenue, i.e. what is left after defraying the annual expense of the peace establishment, is so very small. Obviously the liberation can never be brought about without some considerable increase of the public revenue or some equally considerable reduction of the public expense.

A considerable increase of revenue might be produced by a more equal land tax, a more equal tax on the rent of houses,

and alterations in the present system of customs and excise such as those I mentioned in the foregoing chapter; this might be done without increasing the burden on most of the people, merely distributing the weight of it more equally. But no-one could think that any increase of this kind would have any chance of liberating the public revenue or even of making enough progress towards that liberation in time of peace to prevent or make up for the further accumulation of the public debt in the next war.

By extending the British system of taxation to all the provinces of the empire inhabited by people of British or European extraction, a much greater increase of revenue might be expected. This could hardly be done consistently with the principles of the British constitution without admitting into the British parliament. . . . a fair and equal representation of all those provinces. . . . The private interests of many powerful individuals and the confirmed prejudices of great bodies of people seem to put in the way of such a great change obstacles that may be hard and perhaps altogether impossible to surmount. [Smith announces that he will however discuss how taxation of the colonies might be effected, this being a theoretical question that interests him. After several pages of that, he moves on to a linked set of practical (not merely theoretical) topics:

- how various colonies manage their own public debt,
- the advantages for them of paper money,
- their payments for goods purchased from Great Britain, including
 - the irregularity of some of those payments,
 - the incompleteness of some of them, and
 - the use of commodities (rather than any sort of money) to pay many of them.

With all this behind him, Smith returns to the topic of Great Britain’s public debt.]

It is not **contrary to justice** that Ireland and America should contribute towards the discharge of the public debt of Great Britain. That debt has been contracted in support of the government established by the Revolution [see Glossary], a government to which the protestants of Ireland owe the whole authority they at present enjoy in their own country *and* every security they possess for their liberty, their property, and their religion; a government to which several of the American colonies owe their present charters and thus their present constitution, and to which all of them owe the liberty, security, and property they have enjoyed ever since. That public debt has been contracted in the defence not only of Great Britain but of all the provinces of the empire. The immense debt contracted in recent war and a great part of that contracted in the war before that were both properly contracted in defence of America.

·Nor does it have to be **impossible in practice** for them to do so; the obstacles would disappear if Ireland and the American colonies united with the mother country. By a union with Great Britain, Ireland would gain the freedom of trade and other much more important advantages that would more than make up for any increase of taxes that might accompany that union. By the union with England, the middling and lower ranks of people in Scotland gained a complete deliverance from the power of an aristocracy that had always before oppressed them. By a union with Great Britain, most of people of all ranks in Ireland would gain an equally complete deliverance from a much more oppressive aristocracy; an aristocracy founded not like Scotland's on the natural and respectable distinctions of birth and fortune but on the most odious of all distinctions, those of religious and political prejudices—distinctions which, more than any other, animate both the insolence of the oppressors and the hatred and indignation of the oppressed, commonly making

the inhabitants of the same country more hostile to one another than those of different countries ever are. Without a union with Great Britain, the inhabitants of Ireland are not likely for many ages to consider themselves as one people.

No oppressive aristocracy has ever prevailed in the colonies, but even they would, in point of happiness and tranquillity, gain considerably by a union with Great Britain. Union would at least deliver them from the rancorous and virulent factions that are inseparable from small democracies and have so often divided the affections of their people, disturbing the tranquillity of their governments that are in their form so nearly democratic. If there is a total separation from Great Britain, which seems likely unless prevented by a union of this kind, those factions will be ten times more virulent than ever. Before the start of the present disturbances, the coercive power of the mother country had always been able to restrain those factions from breaking out into anything worse than gross brutality [here = 'behaving like animals'] and insult. If that coercive power is entirely taken away, they will probably soon break out into open violence and bloodshed. In all large countries that are united under one uniform government, the spirit of party commonly prevails less in the remote provinces than in the centre of the empire. The distance of those provinces from the capital—from the principal seat of the great scramble of faction and ambition—makes them enter less into the views of any of the contending parties, and makes them more neutral and impartial spectators of the conduct of all. The spirit of party prevails less in Scotland than in England. In the case of a union, it would probably prevail less in Ireland than in Scotland; and the colonies would probably soon enjoy a degree of concord and unanimity, at present unknown in any part of the British empire. Both Ireland and the colonies, indeed, would be subjected to heavier taxes

than any they now pay. Through a diligent and faithful application of the public revenue to the discharge of the national debt, however, most of those taxes might not go on for long, and the public revenue of Great Britain might soon be reduced to what was necessary for maintaining a moderate peacetime establishment.

The territorial acquisitions of the East India Company. . . might be made another source of revenue, possibly more abundant than all those already mentioned. . . .

If it should be found impracticable for Great Britain to draw any considerable increase of revenue from any of the resources above mentioned, the only resource remaining to her is a lessening of her expenses. In the mode of collecting and of spending the public revenue, though in both there may be still room for improvement, Great Britain seems to be at least as thrifty as any of her neighbours. The military establishment she maintains for her own defence in time of peace is more moderate than that of any European state that can claim to rival her in wealth or in power. So none of these articles seems to admit of any considerable reduction of expense. The expense of the peacetime establishment of the colonies was, before the start of the present disturbances, very considerable; it is an expense which can (and if no revenue can be drawn from them *ought to be*) saved altogether. This constant expense in time of peace, though very great, is insignificant in comparison with what the defence of the colonies has cost us in time of war. The recent war, which was undertaken altogether on account of the colonies, cost Great Britain upwards of £90,000,000. The Spanish war of 1739 was principally undertaken on their account; and in that war and the French war that it led to, Great Britain spent upwards of £40,000,000, a great part of which ought in fairness be charged to the colonies. In those two wars, the colonies cost Great Britain much more than double the

sum that the national debt amounted to before the start of the first of them. Had it not been for those wars, that debt probably would have been completely paid by now; and had it not been for the colonies, the earlier of those wars might not have been undertaken and the later one certainly would not. It was because the colonies were supposed to be provinces of the British Empire that this expense was laid out on them. But countries which contribute neither revenue nor military force towards the support of the empire cannot be considered as provinces. They may, perhaps, be considered as appendages, as a sort of splendid and showy equipage of the empire. But if the empire can no longer support the expense of keeping up this equipage, it ought certainly to lay it down. [Smith is here likening Britain's cutting loose from the American colonies to a wealthy gentleman's reducing the number of his footmen and the quality of his cutlery.] And if it cannot raise its revenue in proportion to its expense, it ought at least to accommodate its expense to its revenue. If the colonies, despite their refusal to submit to British taxes, are still to be considered as provinces of the British empire, their defence in some future war may cost Great Britain as great an expense as it ever has done in any former war. The rulers of Great Britain have, for more than a century past, entertained the people with the imagination that they possessed a great empire on the west side of the Atlantic. This empire, however, has hitherto existed in imagination only. It has hitherto been not an empire but the project of an empire; not a gold mine but the project of a gold mine; a project which has cost, which continues to cost, and which, if pursued in the same way as it has been hitherto, is likely to cost, immense expense, without being likely to bring any profit; for the effects of the monopoly of the colony trade, it has been shown, are to the great body of the people mere loss instead of profit. It is surely now time for our rulers to

relate differently to this golden dream in which they have been indulging themselves, perhaps, as well as the people; they should either

- make it come true or

- awake from it and try to awaken the people.

If the project cannot be completed, it ought to be given up. If any of the provinces of the British empire cannot be made

to contribute towards the support of the whole empire, it is surely time that Great Britain should free herself from the expense of defending those provinces in time of war, and of supporting any part of their civil or military establishment in time of peace; and endeavour to accommodate her future views and designs to the real mediocrity of her circumstances.