

# 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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## Contents

Introduction and plan of the work . . . . .	1
<b>Book I. The causes of improvement in the productive powers of labour, and the order according to which its product is naturally distributed among the different ranks of people</b>	<b>3</b>
Chapter 1. The division of labour . . . . .	3
Chapter 2. The principle that gives rise to the division of labour . . . . .	6
Chapter 3. The division of labour is limited by the extent of the market . . . . .	8
Chapter 4. The origin and use of money . . . . .	10
Chapter 5. Commodities' real price (in labour) and their nominal price (in money) . . . . .	12
Chapter 6. The component parts of the price of commodities . . . . .	18
Chapter 7. Commodities' natural and market prices . . . . .	22
Chapter 8. The wages of labour . . . . .	26
Chapter 9. The profits of stock . . . . .	37
Chapter 10. Wages and profit in the different employments of labour and stock . . . . .	43
Part 1. Inequalities arising from the nature of the employments themselves . . . . .	43
Part 2. Inequalities caused by the policy of Europe . . . . .	53
Chapter 11. The rent of land . . . . .	62
Part 1. The product of land that always provides rent . . . . .	64
Part 2. The product of land that provides rent sometimes but not always . . . . .	71
Part 3. Variations in the proportion between the respective values of the two sorts of product . . . . .	78
<b>Book II. The nature, accumulation, and employment of stock</b>	<b>94</b>
Introduction . . . . .	94
Chapter 1. The division of stock . . . . .	95
Chapter 2. Money, considered as a part of the society's general stock. The expense of maintaining the national capital. . . . .	99
Chapter 3. The accumulation of capital; productive and unproductive labour . . . . .	107
Chapter 4. Stock Lent at Interest . . . . .	114
Chapter 5: The different uses of capital . . . . .	117
<b>Book III. The different progress of affluence in different nations</b>	<b>124</b>
Chapter 1: The natural progress of affluence . . . . .	124
Chapter 2. The discouragement of agriculture in Europe after the fall of the Roman Empire . . . . .	126

Chapter 3. The rise and progress of cities and towns after the fall of the Roman Empire . . . . .	130
Chapter 4: How the commerce of the towns contributed to the improvement of the country . . . . .	133
<b>Book IV: Systems of political economy</b>	<b>139</b>
Introduction . . . . .	139
Chapter 1: The principle of the commercial or mercantile system . . . . .	139
Chapter 2: Restraints on importing from foreign countries goods that can be produced at home . . . . .	148
Chapter 3: Restraints on almost all imports from countries with which the trade balance is supposed to be disadvantageous	155
Part 1: The unreasonableness of those restraints even on the principles of the commercial system . . . . .	155
Part 2: The unreasonableness of those special restraints on other principles . . . . .	157
Chapter 4: Drawbacks . . . . .	162
Chapter 5: Bounties . . . . .	163
Chapter 6: Treaties of commerce . . . . .	167
Chapter 7: Colonies . . . . .	169
Part 1. Motives for establishing new colonies . . . . .	169
Part 2. Causes of the prosperity of new colonies . . . . .	174
Part 3. Europe's advantages from the discovery of America and of a route to the East Indies around Africa . . . . .	180
Chapter 8: Concluding discussion of the mercantile system . . . . .	186
Chapter 9: Agricultural systems of political economy, according to which the sole source of a country's wealth is the product of its land . . . . .	189

## 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 ?? 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 III.****The different progress of affluence in different nations****Chapter 1: The natural progress of affluence**

The great commerce of every civilised society is what is carried on between the inhabitants of the town and those of the country. It consists in the exchange of rude for manufactured product, either immediately or by the intervention of money or of some sort of paper representing money. The country supplies the town with the means of subsistence and the materials of manufacture. The town pays for this by sending back a part of the manufactured product to the inhabitants of the country. The town, in which there cannot be any reproduction of substances, can properly be said to get its whole wealth and subsistence from the country. But we must not infer from this that the town's gain is the country's loss. The gains of both are mutual and reciprocal, and the division of labour in this—as in all other cases—is advantageous to all the persons employed in the various occupations into which it is subdivided. The inhabitants of the country purchase manufactured goods from the town with the product of much less of their own labour than they would have needed to make those goods themselves. . . . The greater the number and revenue of the inhabitants of the town, the larger is the market it provides to the inhabitants of the country; and the larger that market the more people it is advantageous to. . . . Compare the cultivation of the lands in the neighbourhood of any considerable town with that of lands at some distance from it and you will see how much the country is benefited by the commerce of the town. Among all the absurd speculations that have been propagated concerning the balance of trade, it has never

been claimed that the commerce between the country and the town brings a loss to either.

As subsistence naturally comes before convenience and luxury, so also the industry that procures the former must come before that which ministers to the latter. So the cultivation and improvement of the country (which provides subsistence) must come before the increase of the town (which furnishes only the means of convenience and luxury). It is the *surplus* product of the country only, i.e. what is over and above the maintenance of the cultivators, that constitutes the *subsistence* of the town, which can therefore increase only with the increase of this surplus product. The town may not always get its whole subsistence from the country in its neighbourhood, or even from the territory to which it belongs, but from very distant countries; and this, though it forms no exception to the general rule, has caused considerable variations in the progress of affluence in different ages and nations.

The order of things that necessity imposes in general, though not in every country, is in every country promoted by the natural inclinations of man. If human institutions had never thwarted those natural inclinations, no towns could have increased beyond what the improvement and cultivation of the territory in which they were situated could support, at least until such time as the whole of that territory was completely cultivated and improved. on equal or nearly equal profits, most men will choose to employ their capital on the improvement and cultivation of land rather than in either manufactures or foreign trade. The man who employs his capital in land has it more under his view and command,

and his fortune is much less liable to accidents, than that of the trader, who is often obliged to commit it to the winds and the waves and also to the more uncertain elements of human folly and injustice, by giving great credits in distant countries to men with whose character and situation he can seldom be thoroughly acquainted. Whereas the landlord's capital is fixed in the improvement of his land, and seems to be as well secured as the nature of human affairs can admit of. Also, the beauty of the country, the pleasures of a country life, the tranquillity of mind that it promises, and (where the injustice of human laws does not disturb it) the independence that it really provides, have charms that more or less attract everybody; and just as cultivating the ground was the original destination of man, so he seems always to have retained a predilection for this primitive employment.

Without the help of some artificers the cultivation of land cannot be carried on except with great inconvenience and continual interruption. The farmer often needs smiths, carpenters, wheelwrights, and plough-wrights, masons, and bricklayers, tanners, shoemakers, and tailors. And such artificers sometimes need help from one another; and because their residence is not necessarily tied to a precise spot (as the farmer's is), they naturally settle in one another's neighbourhood, thus forming a small town or village. The butcher, the brewer, and the baker soon join them, together with many other artificers and retailers who are necessary or useful for supplying their occasional wants and who contribute still further to the town's growth. [Smith goes into some detail about how town-people and country-people are 'one another's servants', concluding:] If human institutions had never disturbed the natural course of things, the progressive wealth and growth of the towns would everywhere be a result of, and proportional to, the improvement and cultivation of the territory or country.

In our North American colonies, where uncultivated land can still be had on easy terms, no manufactures for distant sale have been established in any of their towns. When an artificer in North America has acquired a little more stock than he needs for conducting his own business in supplying the neighbouring country, he does not use it to establish a manufacture for more distant sale, but employs it to purchase and improve uncultivated land. From artificer he becomes planter, and neither the large wages nor the easy subsistence which that country provides to artificers can bribe him to work for other people rather than for himself. He feels that •an artificer is the servant of his customers, from whom he derives his subsistence, whereas •a planter who cultivates his own land and gets his subsistence from the labour of his own family is really a master, and independent of all the world.

In countries where there is no uncultivated land that can be had on easy terms, every artificer who has acquired more stock than he can employ in the occasional jobs of the neighbourhood tries to prepare work for more distant sale. The smith erects some sort of iron factory, the weaver some sort of linen or woollen factory. Those manufactures gradually come to be subdivided, and thereby improved and refined in many ways. . . .

[Then a page contending that, other things being roughly equal, manufacturing is preferable to foreign commerce as a use for capital because it keeps the capital closer at hand than the other, and that for the same reason agriculture is preferable to manufacturing. And this order of preferability has also been, to some extent, the order in which societies have developed. Smith continues:]

But though this natural order of things must have taken place in some degree in every such society, in all the modern states of Europe it has been in many respects entirely

reversed. The foreign commerce of some of their cities has introduced all their finer manufactures, or such as were fit for distant sale; and manufactures and foreign commerce together have given birth to the main improvements of agriculture. The manners and customs that the nature of their original government introduced, and which remained after that government was greatly altered, necessarily forced them into this unnatural and retrograde order.

## **Chapter 2. The discouragement of agriculture in Europe after the fall of the Roman Empire**

When the German and Scythian nations overran the western provinces of the Roman empire, the confusions that followed lasted for several centuries. The rapine and violence that the barbarians exercised against the former inhabitants interrupted the commerce between the towns and the country. The towns were deserted, and the country was left uncultivated, and the western provinces of Europe, which had enjoyed a considerable degree of affluence under the Roman empire, sank into the lowest state of poverty and barbarism. While those confusions continued, the chiefs and principal leaders of those nations acquired or usurped most of the lands of their countries. A great part of them was uncultivated; but no part of them, whether cultivated or not, was left without an owner. All of them were taken possession of, mostly by a few great proprietors.

This original taking of uncultivated lands was a great evil, but it might have been a merely transitory one if the lands had soon been divided again, broken into small parcels either by inheritance or by alienation [see Glossary]. The law of primogeniture blocked them from being divided by inheritance; the introduction of entails [see Glossary] prevented their being broken into small parcels by alienation.

When land is considered only as the means of **subsistence and enjoyment**, the natural law of succession divides it among all the children of the family, the subsistence and enjoyment of all of whom may be supposed equally dear to the father. The Romans followed this natural law of succession, making no more distinction between older and younger, between male and female, in the inheritance of lands than we do in the distribution of movables. But when land was considered also as the means of **power and protection**, it was thought better that it should descend undivided to one. In those disorderly times, every great landlord was a sort of petty prince. His tenants were his subjects. He was their judge, and in some respects their legislator in peace and their leader in war. He made war at his own discretion, often against his neighbours and sometimes against his sovereign. So the security of a landed estate—the protection its owner could provide to those who lived on it—depended on its size. To divide it was to ruin it, exposing every part of it to oppression and capture by the incursions of its neighbours. So the law of primogeniture came into effect, not immediately but in the course of time, in the succession of landed estates, for the same reason that it has generally held for the succession of monarchies, though not always at their first institution. For the power (and thus the security) of the monarchy not to be weakened by division, it must descend entire to one of the children, and *which* of them it goes to must be determined by some general rule based on some plain and evident difference that can admit of no dispute. Among the children of the same family, there can be no indisputable difference but those of sex and age. The male sex is universally preferred to the female; and when all other things are equal the older everywhere takes place of the younger. Hence the origin of the right of primogeniture, and of what is called 'lineal succession'.



Laws often continue in force long after the end of the circumstances that first gave rise to them and once made them reasonable. In Europe today the owner of a single acre of land is as perfectly secure in his possession as the proprietor of 100,000 acres. Yet the right of primogeniture continues to be respected, and is likely to endure for many centuries more, because of all institutions it is the fittest to support the pride of family distinctions. In every other respect nothing can be more contrary to the real interests of a numerous family than a right which in order to enrich one of the children beggars all the rest.

Entails are the natural consequences of the law of primogeniture. They were introduced to preserve a certain lineal succession, of which the law of primogeniture first gave the idea, and to hinder any part of the original estate from being carried out of the proposed line by giving, bequeathing or selling—by the folly or misfortune of any of its successive owners. . . .

When great landed estates were a sort of principalities, entails might not be unreasonable; they might often prevent the security of thousands from being endangered by the caprice or extravagance of one man. But in the present state of Europe, when all estates get their security from the laws of their country, entails are absurd. They are based on the most absurd of all suppositions, namely this:

It is not the case that every successive generation of men have an equal right to the earth and to all that it possesses. The property of the present generation should be restrained and regulated according to the wishes of people who died perhaps 500 years ago.

Yet entails are still respected through most of Europe, especially in countries where noble birth is a necessary qualification for the enjoyment either of civil or military honours. Entails are thought necessary for maintaining this exclusive

privilege of the nobility to the great offices and honours of their country; and the nobility having usurped one unjust advantage over the rest of their fellow-citizens (·offices and honours·), it is thought reasonable that they should have another (·land·), lest their poverty should make the first one ridiculous.

. . . .It seldom happens that a great proprietor is a great improver. In the disorderly times that gave birth to those barbarous institutions, the great proprietor was busy enough defending his own territories or encroaching on those of his neighbours. He had no leisure to attend to the cultivation and improvement of land. When the establishment of law and order gave him this leisure, he often lacked the inclination and almost always lacked the needed abilities. If the expense of his house and person equalled or exceeded his income (as it often did), he had no stock to employ in this manner. If he was an economist [here = 'someone who gave some thought to how his money was being spent'], he generally found it more profitable to employ his annual savings in new purchases than in the improvement of his old estate. To improve land with profit, like all other commercial projects, requires exact attention to small savings and small gains, and few men born to great fortunes are capable of this, even if they are naturally frugal. The situation of such a person naturally disposes him to attend to ornament that pleases his fancy rather than to profit for which he has so little need. The elegance of his dress, of his equipage, of his house, and household furniture, are things he has been accustomed from his infancy to have some anxiety about. The turn of mind that this habit naturally forms follows him when he comes to think of the improvement of land. . . . In both parts of the united kingdom there are still some great estates that have continued without interruption in the hands of the same family since the times of feudal anarchy. Compare the

present condition of those estates with the possessions of the small proprietors in their neighbourhood and you will need no other argument to convince you of how unfavourable to improvement such extensive property is.

The occupiers of the land were not likely to improve it, as they were slaves attached to the land and incapable of acquiring property. Still less was to be hoped for from those who occupied the land under them. In the ancient state of Europe, the occupiers of land were all tenants at will [i.e. tenants who could be evicted without notice]. They were all or almost all slaves, though their slavery was milder than that known among the ancient Greeks and Romans, or even in our West Indian colonies. They were supposed to belong more directly to the land than to their master: they could be sold with it, but not separately from it. They could marry, provided it was with the consent of their master; and he could not afterwards dissolve the marriage by selling the man and wife to different persons. If he maimed or murdered any of them, he was liable to some penalty, though generally only a small one. They could not acquire property: anything they acquired was really acquired for their master, who could take it from them at pleasure. . . . This species of slavery still exists in Russia, Poland, Hungary, Bohemia, Moravia, and other parts of Germany. It is only in the western and south-western provinces of Europe that it has gradually been abolished altogether.

But if great improvements are seldom to be expected from great proprietors, they are least of all to be expected when they employ slaves for their workmen. The experience of all ages and nations, I believe, demonstrates that the work done by slaves, though it appears to cost only their maintenance, is in the end the most expensive of any. A person who cannot acquire any property can have no interest except to eat as much and work as little as possible. Any work he does

beyond what is sufficient to purchase his own maintenance can be squeezed out of him only by violence and not by any interest of his own. Pliny and Columella both comment on how much the cultivation of corn degenerated in ancient Italy, how unprofitable it became to the master, when it fell under the management of slaves. . . .

The pride of man makes him love to domineer, and nothing mortifies him so much as to have to *persuade* his inferiors to do something. Wherever the law allows it and the nature of the work can afford it, therefore, he will generally prefer the service of slaves to that of freemen. The planting of sugar and tobacco can afford the expense of cultivation by slaves. The raising of corn in the present times apparently cannot. In the English colonies whose principal product is corn most of the work is done by freemen. The recent resolution of the Quakers in Pennsylvania to free all their negro slaves may satisfy us that their number cannot be very great. If slaves had been a considerable part of their owners' property, such a resolution would never have been agreed to. On the other hand, in our sugar colonies the whole work—and in our tobacco colonies a great part of it—is done by slaves. [He adds that sugar is more profitable than tobacco, which is why there are more 'negroes' in proportion to 'whites' in the sugar colonies than in the tobacco ones.]

The slave cultivators of ancient times were gradually succeeded by a species of farmers known at present in France by the name of *métayers*. I know no English name for them. The proprietor provided them with the seed, cattle, and instruments of husbandry—i.e. the whole stock needed for cultivating the farm. The product was divided equally between the proprietor and the farmer, after setting aside what was judged necessary for keeping up the stock, which was restored to the proprietor when the farmer either left or was turned out of the farm. [Smith explains at length why

this system—'villeinage in tenure'—was also not conducive to the assiduous improvement of land.]

This species of tenancy was slowly succeeded by farmers, properly so called, who cultivated the land with their own stock, paying a rent certain to the landlord. When such farmers have a lease for a term of years they may find it in their interest to lay out part of their capital in the further improvement of the farm; because they may expect to recover it, with a large profit, before the lease expires. But even these farmers' hold on the land was for many years extremely precarious, and in many parts of Europe it still is. [Smith states the conditions under which a lease could legally be cancelled, and reports the history of attempts to provide redress for this. This has been done best in England, where a further factor also came into play:] In England a lease for life of 40/- a year value is a freehold, and entitles the lessee to vote for a member of parliament; and as a great part of the yeomanry have freeholds of this kind the whole order of yeomen becomes respectable to their landlords on account of the political consideration that this gives them. . . . The laws and customs so favourable to the yeomanry may have contributed more to the present grandeur of England than all their boasted regulations of commerce taken together.

The law which secures the longest leases against successors of every kind is, so far as I know, peculiar to Great Britain. It was introduced into Scotland so early as 1449, by a law of James II. Its beneficial influence, however, has been much obstructed by entails; the heirs of entail being generally restrained from letting leases for any long term of years. A recent act of parliament has somewhat slackened these fetters, though they are still far too tight. In Scotland, besides, as no leasehold gives a vote for a member of parliament, the yeomanry are on this account less respectable to their landlords than in England.

[In other parts of Europe, Smith reports, leases are somewhat protected but not for long enough to encourage much improvement of the land. This was against the real interests of the landlords, but 'avarice and injustice are always short-sighted'.]

The farmers, besides paying the rent, used to be bound to perform many services for the landlord. These were seldom specified in the lease or regulated by any precise rule, but were determined by the local custom. . . . In Scotland the abolition of all services not precisely stipulated in the lease has within a few years very much altered for the better the condition of the yeomanry of that country.

The public services to which the yeomanry were bound were at least as arbitrary [see Glossary] as the private ones. One was making and maintaining the high roads, a servitude that I think still exists everywhere, though with different degrees of oppression in different countries. There were others. When the king's troops, household or officers of any kind passed through any part of the country, the yeomanry were bound to provide them with horses, carriages, and provisions, at a price regulated by the provider. Great Britain is, I believe, the only monarchy in Europe where this oppression has been entirely abolished. It still exists in France and Germany.

The public taxes to which they were subject were as irregular and oppressive as the services. The ancient lords, though extremely unwilling to grant any pecuniary aid to their sovereign, had no objection to his imposing 'tallage' on their tenants, and did not know enough to foresee how much this must eventually affect their own income. The *taille*, as it still exists in France, may serve as an example of those ancient tallages.

It is a tax on the supposed profits of the farmer, which they estimate by the stock that he has on the farm. It is

in his interests, therefore, to appear to have as little as possible, and consequently to employ as little as possible in cultivating the farm and none in improving it. Should any stock happens to accumulate in the hands of a French farmer, the *taille* is almost equal to a prohibition of its ever being employed on the land. [Smith adds that subjection to the *taille* is regarded as degrading, which places a further obstacle to any stock's being employed on improving land.]

Under all these discouragements, little improvement could be expected from the occupiers of land, .i.e. the farmers who don't own the land that they farm. Those people, with all the liberty and security that law can give, must always improve under great disadvantages. The farmer compared with the proprietor is like a merchant who trades with borrowed money compared with one who trades with his own. The stock of both may improve, but if they conduct their businesses equally well the former must always progress more slowly than that of the other because of the large share of his profits which is consumed by the interest on the loan. In the same way, the lands cultivated by the farmer must be improved more slowly than those cultivated by the proprietor, because of the large share of the product that is consumed in the rent, and which could have been employed in the further improvement of the land if the farmer had been the proprietor. [Smith adds another reason why 'little stock is likely to go from any other profession to the improvement of land in the way of farming', namely the fact that throughout Europe the move from almost anything to being a farmer would be generally regarded as socially a step downwards.]

... The ancient policy of Europe has been unfavourable to the improvement and cultivation of land, whether by the proprietor or by the farmer: first by the general prohibition of the export of corn without a special licence, which seems to have been a very universal regulation; and secondly by

restraints laid by absurd on the inland commerce of corn and of almost every other part of the farm's product. . . .

### **Chapter 3. The rise and progress of cities and towns after the fall of the Roman Empire**

After the fall of the Roman empire the inhabitants of cities and towns were not more favoured than those of the country. They consisted, indeed, of a very different order of people from the first inhabitants of the ancient republics of Greece and Italy. These were composed chiefly of the land-proprietors among whom the public territory was originally divided, and who found it convenient to build their houses close together and to surround them with a wall for the sake of common defence. After the fall of the Roman empire, on the other hand, the proprietors of land seem generally to have lived in fortified castles on their own estates, surrounded by their own tenants and dependants. The towns were chiefly inhabited by tradesmen and mechanics, who seem in those days to have been of servile condition or something close to it. The privileges that we find granted by ancient charters to the inhabitants of some of the principal towns in Europe show well enough what they were before those grants. The people to whom it is granted as a privilege

- that they might give their daughters in marriage without the consent of their lord,
- that on their death their goods should be inherited by their own children and not by their lord, and
- that they might dispose of their own effects by will,

must before those grants have been exactly or nearly in the same state of villeinage as the occupiers of land in the country.

They seem to have been a very poor set of people who used to travel with their goods from place to place, and from fair to

fair, like today's hawkers and pedlars. In all the countries of Europe back then, as in several of the Tatar governments of Asia at present, taxes were levied on the persons and goods of travellers when they •passed through certain manors, •went over certain bridges, •carried their goods from place to place in a fair, •erected in it a booth or stall to sell them in. . . . Sometimes the king—or a great lord who apparently had authority to do this on some occasions—would grant to particular traders. . . . a general exemption from such taxes. Such traders, though in other respects of nearly servile condition, were on this account called 'free-traders'. They in return usually paid to their protector a sort of annual poll-tax, which might be considered as compensation for what their patrons might lose by their exemption from other taxes. At first, both those poll-taxes and those exemptions seem to have been altogether personal, and to have affected only particular individuals for their lifetimes or during the pleasure of their protectors. . . .

[Smith now offers a quite long and complex account of a process by which towns throughout Europe gradually came to have the status of 'free burghs'. Such a town would be empowered to collect its revenue from its inhabitants, in return paying the sovereign a 'rent certain' [see Glossary]. This was known as a 'farm rent', a payment for being allowed to 'farm' the town taxes. In time such towns also came to have various other aspects of self-government. Then:]

It must seem extraordinary that the sovereigns of all the countries of Europe should in this way have exchanged for a rent certain, never to be increased, the branch of their revenue that may have been the most likely of all to be improved in the natural course of things, without either expense or attention of their own; and that they should in this way have voluntarily erected a sort of independent republics in the heart of their own dominions.

To understand this, remember that in those days no European sovereign, probably, was able to protect through the whole extent of his dominions the weaker part of his subjects from the oppression of the great lords. Those whom the law could not protect, and who were not strong enough to defend themselves, were obliged either to •seek the protection of some great lord in return for becoming his slaves or vassals; or to •enter into a league of mutual defence for the common protection of one another. The inhabitants of cities and burghs, considered as single individuals, had no power to defend themselves; but by entering into a league of mutual defence with their neighbours they could set up a considerable resistance. The lords despised the burghers, whom they considered not only as of a different order, but as a parcel of emancipated slaves—almost of a different species from themselves. The wealth of the burghers never failed to provoke their envy and indignation, and they plundered them on every occasion without mercy or remorse. The burghers naturally hated and feared the lords. The king hated and feared them too; but though he might despise the burghers he had no reason to hate or fear them. Mutual interest, therefore, disposed them to support the king, and the king to support them against the lords. They were the enemies of his enemies, and it was in his interests to make them as secure and independent of those enemies as he could. By granting them magistrates of their own, the privilege of making bye-laws for their own government, building walls for their own defence, and bringing all their inhabitants under a sort of military discipline, he gave them all the means of security, and independence of the barons, that it was in his power to bestow. . . .

The princes [see Glossary] who were on the worst terms with their barons seem accordingly to have been the most liberal in grants of this kind to their burghs. King John of

England, for example, appears to have been a most prolific benefactor to his towns. Philip I of France lost all authority over his barons. Towards the end of his reign, his son Louis consulted with the bishops of the royal demesnes concerning the most proper means of restraining the violence of the great lords. Their advice consisted of two proposals:

- (1) Set up a new order of jurisdiction by establishing magistrates and a town council in every considerable town in his demesnes.
- (2) Form a new militia by making the inhabitants of those towns, under the command of their own magistrates, march out to the assistance of the king on proper occasions.

It is from this period [12th century] that we are to date the institution of the magistrates and councils of cities in France. It was during the unprosperous reigns of the princes of the house of Swabia that most of the free towns of Germany received the first grants of their privileges, and that the famous Hanseatic league first became formidable.

The militia of the cities in those times seems not to have been inferior to that of the country, and as they could be more readily assembled on any sudden occasion they often had the advantage in their disputes with the neighbouring lords. In countries like Italy and Switzerland, where the sovereign came to lose the whole of his authority (because of their distance from the principal seat of government, or the natural strength of the country itself, or some other reason), the cities generally became independent republics, and conquered all the nobility in their neighbourhood; making them pull down their castles in the country and live like other peaceable inhabitants in the city. This is the short history of the republic of Berne, as of several other cities in Switzerland. It is the history of nearly all the considerable Italian republics, so many of which arose and perished between the end of the

12th and the beginning of the 16th century (the exception being Venice, whose history is somewhat different).

In countries such as France or England, where the authority of the sovereign (though often very low) was never destroyed, the cities had no opportunity of becoming entirely independent. But they became so considerable that the sovereign could impose no tax on them, apart from the farm-rent described above, without their own consent. So they were called on to send deputies to the general assembly of the states of the kingdom, where they might join with the clergy and the barons in granting some special aid to the king on urgent occasions. . . . Hence the origin of the representation of burghs in the states general of all the great monarchies in Europe.

Order and good government, and along with them the liberty and security of individuals, were in this way established in cities at a time when the occupiers of land in the country were exposed to every sort of violence. But men in this defenceless state naturally content themselves with earning just enough to live, because acquiring more might only tempt the injustice of their oppressors. Whereas when men are sure of enjoying the fruits of their industry, they naturally exert it to better their condition and to acquire not only the necessities but also the conveniences and elegances of life. So the industry that aims at something more than bare survival was established in cities long before it was commonly practised by the occupiers of land in the country. If a little stock were to accumulate in the hands of a poor cultivator, oppressed with the servitude of villeinage, he would naturally conceal it from his master to whom it would otherwise have belonged, and take the first opportunity of running away to a town. In those days the law was so indulgent to the inhabitants of towns, and so desirous of lessening the authority of the lords over the inhabitants of

the country, that if he could conceal himself there from the pursuit of his lord for a year, he was free for ever. Thus, whatever stock accumulated in the hands of the industrious part of the inhabitants of the country naturally took refuge in cities, as the only sanctuaries in which it could be secure for the person who acquired it.

[Then a paragraph about the advantages for trade of cities on the sea-coast or on navigable rivers; followed by several pages on foreign trade, mostly repeating things already said in Book I, chapter 10.]

#### **Chapter 4: How the commerce of the towns contributed to the improvement of the country**

The increase and riches of commercial and manufacturing towns contributed in three ways to the improvement and cultivation of the countries to which they belonged.

(1) By providing a great and ready market for the rude product of the country they encouraged its cultivation and further improvement. This benefit was not confined to the countrysides in which they were situated, but could extend to all those with which they had any dealings, though to the more distant ones the costs of transport reduced the benefit.

(2) The wealth acquired by the inhabitants of cities was often employed in purchasing lands that were for sale, of which a great part would often be uncultivated. Merchants are commonly ambitious to become country gentlemen, and when they do they are generally the best of all land-improvers. A merchant is accustomed to employing his money chiefly in profitable projects, whereas a mere country gentleman is accustomed to employing it chiefly in expense. The former often sees his money go from him and return with a profit; the latter seldom expects to see his money again once he has parted with it. Those different habits naturally affect

their temperament and disposition in every sort of business. A merchant is commonly a bold undertaker [see Glossary], a country gentleman a timid one. The one is not afraid to lay out a great deal of capital all at once on the improvement of his land if he has a good chance of raising the value of the land in proportion to the expense. The other, *if* he has any capital, seldom ventures to employ it in this manner. If he improves his land at all, it is commonly not with capital but with what he can save out of his annual income. . . . Also, mercantile business naturally gives a merchant habits of order, economy and attention, which make him much fitter to carry out any project of improvement with profit and success.

(3) Commerce and manufactures gradually introduced order and good government, and with them the liberty and security of individuals, among the inhabitants of the country who had previously lived almost in a continual state of •war with their neighbours and •servile dependence on their superiors. This, though it has been the least observed, is by far the most important of all their effects. Mr Hume is, as far as I know, the only writer to have taken notice of it.

Before foreign commerce and fine manufactures are introduced, a great proprietor—having nothing for which he can exchange most of the product of his lands except for the maintenance of the cultivators—consumes it all in rustic hospitality at home. If this surplus product is enough to maintain a hundred or a thousand men, he can use it only in maintaining a hundred or a thousand men. So he is always surrounded with a multitude of retainers and dependants who must obey him, for the same reason that soldiers must obey the prince who pays them, namely because they have nothing to give in return for their maintenance and are being fed entirely by his bounty. Before the extension of commerce and manufactures in Europe, the hospitality of the rich

and the great—from the sovereign down to the most minor baron—exceeded everything that we today can easily form a notion of. [He gives some startling examples.]

The occupiers of land were in every respect as dependent on the great proprietor as his retainers were. Even those of them who were not in a state of villeinage were tenants at will, who paid only a quit-rent, i.e. a rent that was nowhere near equivalent to the subsistence that the land provided them. Some years ago in the highlands of Scotland a common rent for lands that maintained a family would be a crown, half a crown, a sheep, a lamb. In some places it is so at this day. . . . In a district where the surplus product of a large estate must be consumed on the estate itself, it will often be more convenient for the proprietor that part of it be consumed at a distance from his own house, which saves him from the embarrassment of too large a company or too large a family; but he will do this only if those who consume it are as dependent on him as his retainers or domestic servants. A tenant at will, who occupies enough land to maintain his family and pays little more than a quit-rent, is as dependent on the proprietor as any servant or retainer, and must be equally obedient to the proprietor. . . .

The power of the ancient barons was based on the authority that the great proprietors had over their tenants and retainers in the state of affairs I have described. They inevitably became the judges in peace, and the leaders in war, of all who dwelt on their estates. They could maintain order and apply the law within their respective domains because each of them could there turn the whole force of all the inhabitants against the injustice of any one. No other person had enough authority to do this. The king in particular had not. Back then he was little more than the greatest proprietor in his dominions, to whom the other great proprietors paid certain respects for the sake of common defence against their

common enemies. If he had tried by his own authority to enforce a law—e.g. enforcing payment of a small debt—within the lands of a great proprietor, where all the inhabitants were armed and accustomed to stand by one another, he would have found himself in extreme trouble. So through most of the country he had to leave the administration of justice to those who were capable of administering it; and for the same reason to leave the command of the country militia to those whom that militia would obey.

Several centuries before even the feudal law was even mentioned in Europe, the great proprietors of land possessed allodially [see Glossary] the highest jurisdictions both civil and criminal, and the power of levying troops, of coining money, and even of making bye-laws for the government of their own people. The authority and jurisdiction of the Saxon lords in England seem to have been as great before the conquest as that of any of the Norman lords after it, and the feudal law is thought not to have become the common law of England until after the conquest. [Smith adds some details.]

The introduction of the feudal law, so far from extending the authority of the great allodial lords, can be seen as an attempt to moderate it. It established a regular subordination, accompanied with a long train of services and duties, from the king down to the smallest proprietor. During the childhood of the proprietor, the rent and the management of his lands fell into the hands of his immediate superior, and thus for all great proprietors into the hands of the king. He was charged with the maintenance and education of the pupil, and from his authority as guardian was taken to have a right of disposing of him in marriage, provided it was in a manner suitable to his rank. But though this institution necessarily tended to strengthen the authority of the king and weaken that of the great proprietors, it could not do either sufficiently to establish order and good government



among the inhabitants of the country, because it could not alter sufficiently the state of property and manners from which the disorders arose. The authority of government still continued to be too weak in the head and too strong in the lower parts of the body, the excessive strength of the latter being the *cause* of the weakness of the head. After the institution of feudal subordination, the king was as incapable of restraining the violence of the great lords as before. They still continued to make war at their own choice, almost continually on one another and very often on the king; and the open countryside still continued to be a scene of violence, rapine, and disorder.

But what could never have been brought about by the violence of the •feudal institutions was gradually brought about by the silent and insensible operation of •foreign commerce and manufactures. These gradually provided the great proprietors with something they could get in exchange for the whole surplus product of their lands, something they could consume themselves without sharing it with tenants or retainers. *All for ourselves and nothing for other people* seems at every time to have been the vile maxim of the masters of mankind. So as soon as they could find a way of consuming the whole value of their rents themselves, they were not inclined to share them with anyone else. For something as frivolous and useless as a pair of diamond buckles they exchanged the maintenance—i.e. the price of the maintenance—of a thousand men for a year, and with it the whole weight and authority that this could have given them. But the buckles were to be all their own, and no other human creature was to have any share of them; whereas in the older system they had to share them with at least a thousand people. With the judges that were to determine the preference—namely the great proprietors themselves—this difference was perfectly decisive! Thus, for the gratification

of the most childish, mean and the sordid of all vanities, they gradually bartered away their whole power and authority.

In the present state of Europe a man with £10,000 a year can and generally does spend his whole income without *directly* maintaining twenty people, or being able to command more than ten footmen not worth commanding. He may *indirectly* maintain as many people as he could have done under the old system—as many or even more. He exchanges his whole income for a very small quantity of precious productions, but very many workmen must have been employed in collecting and preparing them. [Smith goes on to say that the rich man is indirectly contributing to paying the wages of those workers, the profits of their employers, and so on. But they all have many customers other than him, so that they can be maintained without him in particular, and thus are not absolutely dependent on him.]

The great proprietors' personal expenses having gradually increased in this way, it was inevitable that the number of their retainers should gradually diminish, until at last they were all dismissed. The same cause gradually led to the dismissal of the unnecessary part of the proprietors' tenants. Farms were enlarged, and—despite complaints of depopulation—the occupiers of land were reduced to the number necessary for cultivating it according to the imperfect state of cultivation and improvement in those times. By removing the unnecessary mouths and getting from the farmer the full value of the farm, a greater surplus—i.e. the price of a greater surplus—was obtained for the proprietor, which the merchants and manufacturers soon provided him with a way of spending on his own person in the same way as he had done the rest. The same cause continuing to operate, he wanted to raise his rents above what his lands could provide in the actual state of their improvement. His tenants could agree to this only on condition that they

should be secured in their possession for enough years for them to recover with profit whatever they spent on the further improvement of the land. The expensive vanity of the landlord made him willing to accept this condition; and hence the origin of long leases.

Retainers being dismissed, the great proprietors could no longer interrupt the regular execution of justice or disturb the peace of the country. Having sold their birth-right, not like Esau for a mess of pottage in time of hunger and necessity [Genesis 25:30-34], but in the wantonness of plenty, for trinkets and baubles that were fit to be the playthings of children rather than the serious pursuits of men, they became as insignificant as any substantial burgher or tradesman in a city. A regular government was established in the country as well as in the city, with nobody having power to disturb its operations in the one any more than in the other.

In this way a revolution was very gradually brought about by two orders of people who had not the least intention to serve the public. The sole motive of the great proprietors was to gratify the most childish vanity. What moved the merchants and artificers was much less ridiculous: they acted merely with an eye to their own interests, following their own pedlar principle of earning a penny wherever a penny was to be earned. Neither group had any knowledge or foresight of the great revolution that the folly of the one and the industry of the other was gradually bringing about.

That is how through most of Europe the commerce and manufactures of cities has been the cause—not the effect—of the improvement and cultivation of the country.

This order of events, being contrary to the natural course of things, is necessarily both slow and uncertain. Compare •the slow progress of the European countries whose wealth depends very much on their commerce and manufactures with •the rapid advances of our North American colonies,

whose wealth is entirely based on agriculture. Through most of Europe it is thought that the number of inhabitants can't double in less than 500 years, whereas in several of our North American colonies it is found to double in 25 years. In Europe •the law of primogeniture and various kinds of perpetuities [see Glossary] prevent the division of great estates, and thereby prevent the multiplication of small proprietors. But a small proprietor, who knows every part of his little territory and views it all with the affection that property (especially small property) naturally inspires, and who therefore takes pleasure not only in cultivating but in adorning it, is generally of all improvers the most industrious, the most intelligent, and the most successful. Also, •those same regulations keep so much land out of the market that there is always more capital to buy land than there is land to sell, so that what is sold always sells at a monopoly price. The rent never pays the interest of the purchase-money. . . . To purchase land is everywhere in Europe a most unprofitable employment of a small amount of capital. . . . A young man who, instead of applying to trade or to some profession, employs a capital of (say) £3,000 in buying and cultivating of a small piece of land, might expect to live very happily and independently, but must bid adieu for ever to all hope of either great fortune or great eminence, which he would have had some chance of acquiring by a different employment of his stock. . . . In North America, on the other hand, £60 is often a sufficient stock to begin a plantation with. There the purchase and improvement of uncultivated land is the most profitable employment of small as of great lots of capital, and the most direct road to all the fortune and eminence that can be acquired in that country. . . .

England, because of the natural fertility of the soil, the length of its sea-coast, and the many navigable rivers that run through it. . . ., may be as well fitted by nature as any

large country in Europe to be the seat of foreign commerce, of manufactures for distant sale, and of all the improvements these can lead to. Also, from the beginning of the reign of Elizabeth the English legislature has been specially attentive to the interests of commerce and manufactures; there is in fact no country in Europe—not even Holland—where the law is more favourable on the whole to this sort of industry. So commerce and manufactures have continually advanced during all this period. No doubt the cultivation and improvement of the country has gradually advanced too; but it seems to have followed slowly, and at a distance, the more rapid progress of commerce and manufactures. Much of the country is still uncultivated, and what is cultivated is much inferior to what it might be. The law of England, however, favours agriculture not only indirectly by the protection of commerce but by several direct encouragements. Except in times of scarcity, the export of corn is not only free but encouraged by a bounty [see Glossary]. In times of moderate plenty, the import of foreign corn is loaded with duties that amount to a prohibition. The import of live cattle has been prohibited at all times except from Ireland (a recent exception). So those who cultivate the land have a monopoly on the two greatest and most important articles of land product, bread and butcher's meat. These encouragements (though basically altogether illusory, as I shall try to show later) sufficiently demonstrate at least the good intention of the legislature to favour agriculture. But much more important than all of them is the fact that the yeomanry of England are made as secure, as independent, and as respectable as law can make them. No country, therefore, in which the right of primogeniture takes place, which pays tithes, and where perpetuities, though contrary to the spirit of the law, are admitted in some cases, can give more encouragement to agriculture than England. Yet the state of its cultivation

is as I have described. What would it have been if the law had given no direct encouragement to agriculture besides what arises indirectly from the progress of commerce, and had left the yeomanry in the same condition as in most other countries of Europe?

[Smith mentions France and Portugal as countries that engage in a fair amount of foreign trading, but that for various reasons have not greatly improved their agricultural land.]

Italy is the only great country of Europe which seems to have been cultivated and improved in every part, by means of foreign commerce and manufactures for distant sale. Before the invasion of Charles VIII, Italy (according to Guicciardin) was cultivated as much in the most mountainous and barren parts of the country as in the flattest and most fertile. The advantageous situation of the country, and the great number of independent states which at that time subsisted in it, probably contributed to this general cultivation. . . .

The capital that any country acquires by commerce and manufactures is a precarious and uncertain possession, until some part of it is secured and realised in the cultivation and improvement of its lands. A merchant is not necessarily the citizen of any particular country. It matters little to him from what place he carries on his trade; and a very trifling dissatisfaction will make him move his capital, and with it all the industry it supports, from one country to another. No part of it can be said to belong to any particular country until it has (as it were) been spread over the face of that country, either in buildings, or in the lasting improvement of lands. No vestige now remains of the great wealth, said to have been possessed by most of the Hans towns, except in the obscure histories of the thirteenth and fourteenth centuries. . . . But though Italy's misfortunes of Italy at the end of the 15th and beginning of the 16th centuries greatly lessened the

commerce and manufactures of the cities of Lombardy and Tuscany, those countries still continue to be among the most populous and best cultivated in Europe. The civil wars of Flanders, and the Spanish government that succeeded them, chased away the great commerce of Antwerp, Ghent, and Bruges. But Flanders still continues to be one of the richest, best cultivated, and most populous provinces of Europe. The ordinary revolutions of war and government easily dry up

the sources of the wealth that arises solely from commerce. Wealth that arises from the more solid improvements of agriculture is much more durable, and cannot be destroyed except but by the more violent convulsions occasioned by the depredations of hostile and barbarous nations continued for a century or two together; such as those that happened for some time before and after the fall of the Roman empire in the western provinces of Europe.

## Book IV: Systems of political economy

### Introduction

Political economy, considered as a branch of the science of a statesman or legislator, has two aims: **(a)** to provide a plentiful revenue or subsistence for the people, or more properly to enable them to provide it for themselves; and **(b)** to supply the state or commonwealth with enough revenue for the public services. It proposes to enrich both the people and the sovereign.

The different progress of affluence in different ages and nations has given rise to two systems of political economy, with regard to enriching the people. The one may be called the system of commerce, the other that of agriculture. I shall try to explain both as fully and distinctly as I can [the former in chapters 1–8, the latter in chapter 9], and shall begin with the system of commerce. It is the modern system, and is best understood in our own country and in our own times.

### Chapter 1: The principle of the commercial or mercantile system

That wealth consists in money, or in gold and silver, is a popular notion that naturally arises from money's double function as •the instrument of commerce and •the measure of value. Because it is the instrument of commerce, we can get whatever we want more easily through money than through any other commodity. The big problem, we always find, is to get money; when we have it there is no difficulty in making any subsequent purchase. Because it is the measure of value, we estimate the value of all other commodities by the amount of money they will exchange for. We say of a rich man that he is worth a great deal of money, and of

a poor man that he is worth very little money. A frugal man, or a man eager to be rich, is said to love money; and a careless, generous, or free-spending man is said to be indifferent about it. In short, 'wealth' and 'money' are treated in everyday language as in every respect synonymous.

In the same way, a rich country is supposed to be a country abounding in money; and heaping up gold and silver in any country is supposed to be the easiest way to enrich it. For some time after the discovery of America, the first thing the Spaniards wanted to know when they arrived at any unknown coast was 'Is there any gold or silver in the neighbourhood?' On the basis of the answer to that they judged whether it was worthwhile to make a settlement there, or if the country was worth conquering. An ambassador from the king of France to one of the sons of the famous Gengis Khan says that the Tatars used often to ask him 'Are there many sheep and oxen in the kingdom of France?' They also wanted to know if the country was rich enough to be worth conquering. Tatars and all other nations of shepherds generally know nothing of the use of money, and for them cattle are the instruments of commerce and the measures of value. For them wealth consisted in cattle; for the Spaniards it consisted in gold and silver. Of the two, the Tatar notion may have been nearer to the truth.

Mr Locke notes a distinction between money and other movable goods. All other movable goods, he says, are so consumable that wealth consisting in them cannot be much depended on; a nation that abounds in them one year may be in great want of them the next—not through export but merely through their own waste and extravagance. Money, on the other hand, is a steady friend: it may travel from hand

to hand, but if it can be kept from leaving the country it is not very liable to be wasted and consumed. According to him, therefore, gold and silver are the most solid and substantial part of the movable wealth of a nation, so he thinks that multiplying those metals ought to be the great object of its political economy.

Others admit that if a nation could be separated from all the world it would not matter how much or how little money circulated in it. The consumable goods that were circulated by means of this money would only be exchanged for a larger or smaller number of pieces, but the real wealth or poverty of the country would depend solely on the abundance or scarcity of those consumable goods. But they think it is different for countries that have connections with foreign nations and are obliged to conduct foreign wars and to maintain fleets and armies in distant countries. This, they say, can be done only by sending abroad money to pay them with; and a nation cannot send much money abroad unless it has a good deal at home. So every such nation must try in time of peace to accumulate gold and silver so that it may have what it needs to carry on foreign wars, when the occasion arises.

Because of these popular notions, all the nations of Europe have—though to little purpose—explored every possible means of accumulating gold and silver. Spain and Portugal, owners of the principal mines supplying Europe with those metals, have either prohibited their export under the severest penalties or subjected it to a considerable duty. A similar prohibition seems once to have been a part of the policy of most other European nations. It is even to be found, where we should least of all expect to find it, in some old Scotch acts of parliament forbidding under heavy penalties the carrying gold or silver out of the kingdom. The same policy formerly held sway in France and in England.

When those countries became commercial, the merchants often found this prohibition extremely inconvenient. They could often buy more advantageously with gold and silver than with any other commodity the foreign goods that they wanted to import into their own country or to carry to some foreign country. So they protested against this prohibition as hurtful to trade. They had two main contentions.

(1) The export of gold and silver to purchase foreign goods does not always lessen the quantity of those metals in the kingdom. On the contrary, it might often *increase* that quantity: if the consumption of foreign goods was not thereby increased in the home country, those goods might be re-exported to foreign countries, sold there for a large profit, and thus bring back more treasure than was originally sent out to purchase them. Mr Mun compares this operation of foreign trade to the seed-time and harvest of agriculture: 'If we only behold the actions of the husbandman at the seed-time, when he throws much good corn into the ground, we shall regard him as a madman rather than a husbandman. But when we consider his labours in the harvest, which is the goal of his efforts, we shall find the worth and plentiful increase of his actions.'

(2) This prohibition cannot not block the export of gold and silver, because they can easily be smuggled abroad. This export can be prevented only by a proper attention to the *balance of trade*. When the country exports goods of greater value than those it imports, a balance becomes due to it **from** foreign nations, and this has to be paid in gold and silver, thereby increasing the quantity of those metals in the kingdom. But when it imports goods of greater value than those it exports, a balance becomes due **to** foreign nations, which has to be paid in the same manner, thereby reducing that quantity. In this situation prohibiting the export of those metals could not prevent it, but would it

more expensive by making it more dangerous. The exchange would be turned against the country that owed the balance more than it otherwise might have been; the merchant who purchased a bill on the foreign country would have to pay the banker who sold it not only for •the natural risk, trouble and expense of sending the money thither but also for •the extra risk arising from the prohibition. And the more the exchange is against a country, the more the balance of trade must be against it because its money comes to have so much less value in comparison with that of the country to which the balance was due. For example, if the exchange between England and Holland was 5% against England, it would require 105 ounces of silver in England to purchase a bill for a 100 ounces of silver in Holland, thus reducing the quantity of Dutch goods that could be bought for 105 ounces of silver; whereas 100 ounces of silver in Holland would be worth 105 ounces in England, and would purchase a correspondingly larger quantity of English goods. Thus, the English goods sold to Holland would be sold correspondingly cheaper, and the Dutch goods sold to England correspondingly dearer. . . . ; so the balance of trade would be that much more against England, and would require a greater balance of gold and silver to be exported to Holland.

Those arguments were partly solid and partly sophistical. They were solid in saying that the export of gold and silver in trade might often be advantageous to the country, and in asserting that no prohibition could prevent their export when private people found any advantage in exporting them. But they were sophistical in supposing that to preserve or increase the quantity of those metals required special attention from the government; any more than such attention is needed to preserve or to increase the quantity of any other useful commodities that the freedom of trade never fails to supply in the proper quantity. They were sophistical

too, perhaps, in asserting that the high price of exchange necessarily increases the unfavourable 'balance of trade', as they called it, or leads to the export of more gold and silver. That high price is indeed extremely disadvantageous to the merchants who had to pay money in foreign countries, because they have to pay more for the bills on those countries that their bankers grant them. But though the risk arising from the prohibition might create a special expense for the bankers, it would not necessarily take any more money out of the country. This expense would generally be all laid out in the home country, in smuggling the money out of it, and could seldom lead to the export of a single sixpence beyond the precise sum drawn for. Also, the high price of exchange would naturally dispose the merchants to try to make their exports nearly balance their imports, so as to keep the amount they have to pay this high exchange on as small as possible. Furthermore, the high price of exchange must operate as a tax—raising the price of foreign goods and thereby diminishing their consumption. So it would tend not to increase but to reduce the unfavourable 'balance of trade', thus reducing the export of gold and silver.

Such as they were, however, those arguments convinced the people to whom they were addressed. They were addressed by merchants to parliaments, councils of princes, nobles, and country gentlemen; by those who were supposed to understand trade to those who were aware of knowing nothing about the matter. Experience demonstrated to the nobles and country gentlemen as well as to the merchants that foreign trade enriched the country; but none of them knew *how* it did so. The merchants knew perfectly how it enriched themselves; it was their business to know that. But it was no part of their business to know how it enriched the country. This subject came into their consideration only when they had occasion to apply to their country for

some change in the laws relating to foreign trade. Then they had to say something about the beneficial effects of foreign trade, and how those effects were obstructed by the laws as they then stood. To the judges who were to decide the business, it appeared a most satisfactory account of the matter when they were told that foreign trade brought money into the country and that the laws in question prevented it from bringing in as much as it otherwise would do. Those arguments therefore produced the wished-for effect. The prohibition of exporting gold and silver was confined in France and England to the coin of those respective countries. The export of foreign coin and of bullion was made free. In Holland and some other places this liberty was extended even to the coin of the country. The attention of government was turned away from •guarding against the export of gold and silver to •watching over the balance of trade, as the only thing that could cause any increase or diminution of those metals. From one fruitless concern it was turned away to another concern much more intricate, much more confusing, and equally fruitless. The title of Mun's book, *England's Treasure in Foreign Trade*, became a fundamental maxim in the political economy of England and indeed of all other commercial countries. The inland or home trade, the most important of all—the trade in which a given amount of capital provides the greatest revenue and creates the greatest employment to the people of the country—was considered as merely subsidiary to foreign trade. It did not bring money into the country, it was said, or carry any out of it; so the country could never become richer or poorer by means of it, except so far as its prosperity or decay might indirectly influence the state of foreign trade.

Gold and silver will be imported without any attention from the government, in the same way that a country with no vineyards of its own must import its wines. It does not seem

necessary, however, that governmental attention should be turned towards one of these more than towards the other. A country that can afford to buy wine will always get the wine it wants; and a country that can afford to buy gold and silver will never be short of those metals. They are to be bought for a certain price like all other commodities, and just as

- gold and silver are the price of all other commodities, so also

- all other commodities are the price of gold and silver.

We trust with perfect security that •the freedom of trade, without any attention from government, will always supply us with the wine we want; and we may trust with equal security that •it will always supply us with all the gold and silver that we can afford to purchase or to employ, whether in circulating our commodities or in other uses.

The quantity of any commodity that human industry can purchase or produce naturally regulates itself in every country according to the effectual demand, i.e. according to the demand of those who are willing to pay the whole rent, labour and profits that must be paid in order to prepare and bring it to market. But no commodities regulate themselves more easily or more exactly according to this effectual demand than gold and silver; because no commodities can be more easily transported from places where they are cheap to ones where they are dear, from places where they exceed this effectual demand to ones where they fall short of it. If there were in England an effectual demand for an additional quantity of gold, a packet-boat could bring from Lisbon or some other source 50 barrels of gold, which could be coined into more than 5,000,000 guineas. But if there were an effectual demand for grain of the same value, importing it would require, at 5 guineas a barrel, 1,000,000 barrels of shipping, or 1,000 ships with 1,000 barrels each. The navy of England would not be sufficient!



[Smith says—giving examples—that it is useless for governments to prohibit the export or the import of gold or silver, because they are too easy to smuggle.]

It is partly because they are easy to transport that their price does not fluctuate continually like that of most other commodities, which are hindered by their bulk from shifting their location when the market is over- or under-stocked with them. Their price is not altogether exempt from variation, but changes in it are generally slow, gradual, and uniform. . . .

If gold and silver *do* fall short in a country that has the wherewithal to purchase them, there are more expedients for supplying their place than that for almost any other commodity. If the materials of manufacture are lacking, industry must stop. If provisions are lacking, the people must starve. But if money is lacking its place can be taken by **barter**, though with a good deal of inconvenience. A less inconvenient way of making up for lack of money is to buy and sell on **credit**, with the dealers exchanging their credits with one another monthly or annually. A well-regulated **paper money** will play the role, not only with no inconvenience but sometimes with some advantages. For every reason, therefore, the government's attention is never so unnecessarily employed as when directed to watch over the preservation or increase of the quantity of money in a country.

Yet no complaint is more common than that of a scarcity of money. Money, like wine, must always be scarce with those who do not have the wherewithal to buy it or the credit to borrow it. Those who have either will seldom lack the money or the wine that they have occasion for. This complaint about the scarcity of money is not always confined to improvident spendthrifts. It is sometimes general through a whole mercantile town and the surrounding countryside. Over-trading is the common cause of it. •Sober men whose projects have been too big for their capital are as likely to

have neither the wherewithal to buy money nor credit to borrow it as •prodigals whose expense has been too big for their income. Before their projects can start to earn anything their stock is gone and their credit with it. They run about everywhere to borrow money, and everyone tells them that they have none to lend. Even such general complaints of the scarcity of money do not always prove that the usual number of gold and silver pieces are not circulating in the country; it may be just that those pieces are wanted by many people who have nothing to give for them. When the profits of trade are greater than ordinary, over-trading becomes a general error among both big and small dealers. They do not always send more money abroad than usual, but they buy on credit (both at home and abroad) an unusual quantity of goods that they send to some distant market, hoping that the returns will come in before the demand for payment. The demand comes before the returns, and they have nothing at hand with which they can purchase money or give solid security for borrowing. What generates the general complaint of the scarcity of money is not a scarcity of gold and silver but the difficulty that such people find in borrowing and that their creditors find in getting payment.

Money is indeed always a part of the national capital; but I have shown that it is generally only a small part, and is always the most unprofitable part of it.

A merchant generally finds it easier to buy goods with money than to buy money with goods, for the following four reasons. **(i)** Money is the known and established instrument of commerce, for which everything is readily given in exchange but which is not always with equal readiness to be got in exchange for everything. **(ii)** Most goods are more perishable than money, and the merchant may often sustain a much greater loss by keeping them than by keeping money. **(iii)** When the merchant's goods are on hand he

is more liable to demands for money that he cannot answer than when he has got (not the goods but) their price in his coffers. (iv) The merchant's profit arises more directly from selling than from buying. For all these reasons he is generally more anxious to exchange his goods for money than to exchange his money for goods. But though it may sometimes happen that a particular merchant with plenty of goods in his warehouse is ruined by not being able to sell them in time, a nation or country is not liable to the same accident. A merchant's whole capital often consists in perishable goods destined for purchasing money. But only a small part of the annual product of a country's land and labour can be destined for purchasing gold and silver from their neighbours. Most of it is circulated and consumed among themselves; and most of the surplus that is sent abroad is destined for the purchase of other foreign goods. So even if gold and silver could not be had in exchange for the goods destined to purchase them, the nation would not be ruined. It might suffer some loss and inconvenience, and be forced to resort to some of the expedients that are necessary for taking the place of money; but the annual product of its land and labour would be nearly the same as usual, because nearly the same consumable capital would be employed in maintaining it. And though goods do not always draw money as *readily* as money draws goods, in the long run they draw it more *necessarily* than it draws them. Goods can serve many other purposes besides purchasing money, but money can serve no purpose except purchasing goods. So money necessarily runs after goods, but goods do not always or necessarily run after money. The man who buys does not always mean to sell again, but often to use or to consume; whereas he who sells always means to buy again. The buyer may often have done the whole of his business, but the seller can never have done more than half of his business. . . .

This is sometimes said:

Consumable commodities are soon destroyed; whereas gold and silver are more durable, so that if they weren't continually being exported they could be accumulated for years, creating an incredible increase in the country's real wealth. So nothing can be more disadvantageous to a country than the trade that consists in exchanging such lasting commodities for perishable ones.

But we do not regard as disadvantageous the trade that consists in exchanging England's hardware for France's wines; yet hardware is a very durable commodity, and if it weren't continually being exported it could be accumulated for years, creating an incredible increase in the country's pots and pans! But it is obvious •that the number of such utensils a country has is necessarily limited by the use there is for them; •that it would be absurd to have more pots and pans than were needed for cooking the victuals usually consumed there; and •that if the quantity of victuals increases, the number of pots and pans will increase along with it, some of the increased quantity of victuals being employed in purchasing them or in maintaining additional workmen to make them. It should be equally obvious •that the quantity of gold and silver a country has is limited by the use there is for those metals; •that their use consists in circulating commodities as coin, and providing a kind of household furniture as plate; •that the quantity of coin in every country is regulated by the value of the commodities that are to be circulated by it (increase that value and immediately some of it will be sent abroad to purchase the additional quantity of coin needed for circulating them); •that the quantity of plate is regulated by the number and wealth of the private families who choose to indulge themselves in that sort of magnificence (increase the number and wealth of

such families and some of this increased wealth will probably be employed in purchasing an additional quantity of plate); •that trying to increase a country's wealth by introducing or by detaining in it an unnecessary quantity of gold and silver is as absurd as would be trying to increase private families' good cheer by obliging them to keep an unnecessary number of kitchen utensils. Just as the expense of purchasing those unnecessary utensils would reduce the quantity or goodness of the family provisions, so also the expense of purchasing an unnecessary quantity of gold and silver must in every country reduce the wealth that feeds, clothes, and lodges the people, that maintains and employs them. . . .

It is not always necessary to accumulate gold and silver in order to enable a country to carry on foreign wars, maintaining fleets and armies in distant countries. Fleets and armies are maintained not with gold and silver but with consumable goods. If a nation has—from the annual product of its domestic industry, from the annual revenue arising out of its lands, labour, and consumable stock—the wherewithal to purchase those consumable goods in distant countries, it can maintain foreign wars there. It can purchase the pay and provisions of an army in a distant country by sending abroad some part of **(a)** its accumulated gold and silver, or of **(b)** the annual product of its manufactures, or of **(c)** its annual rude [see Glossary] product.

**(a)** The gold and silver that can properly be considered as accumulated or stored up in any country can be distinguished into three parts: •the circulating money, •the plate of private families, and •the money that may have been collected by many years of parsimony and laid up in the treasury of the prince [see Glossary].

It's not often that much can be spared from the circulating money of the country, because there can seldom be much redundancy in that. The value of goods annually

bought and sold in a country requires a certain quantity of money to circulate and distribute them to their proper consumers, and has no use for any more. The channel of circulation necessarily draws to itself a sum sufficient to fill it, and never admits any more. In the case of foreign war, however, something is generally withdrawn from this channel. Because so many people are maintained abroad, fewer are maintained at home. Fewer goods are circulated there, and less money is needed to circulate them. Also, on such occasions an unusually large quantity of paper money of some sort. . . .is generally issued; this takes the place of circulating gold and silver, creating an opportunity to send a greater quantity of it abroad. But all this would be a poor resource for maintaining a foreign war of great expense and several years' duration.

**(b)** Melting down private families' plate has always been found to be a still more insignificant resource. At the start of the last was the French did not get enough advantage from this expedient to make up for the loss of the fashion.

**(c)** The accumulated treasures of the prince have in former times provided a much greater and more lasting resource. These days, accumulating treasure seems to be no part of the policy of European princes except for the king of Prussia.

The funds that maintained the foreign wars of the present century—possibly the most expensive that history records—seem to have had little dependence on the export of circulating money, or the plate of private families, or the treasure of the prince. The last French war cost Great Britain upwards of £90,000,000, including not only the £75,000,000 of new debt that was contracted but also the additional two shillings in the pound land tax, and what was annually borrowed from the sinking fund [see page ??]. More than two-thirds of this expense were laid out in distant

countries—in Germany, Portugal, America, the ports of the Mediterranean, the East and West Indies. The kings of England had no accumulated treasure. We never heard of any extraordinary quantity of plate being melted down. The circulating gold and silver of the country had been supposed not to exceed £18,000,000. Since the recent recoinage of the gold, however, that figure is believed to have been a good deal too low. Let us suppose, then, our circulating gold and silver to have been £30,000,000 (the highest figure anyone has suggested). If the war had been carried on by means of our money, the whole of it—even on this very high estimate of what it was—have been sent out and returned again at least twice, in a period of six to seven years. If this happened, it would provide the most decisive proof of how unnecessary it is for government to watch over the preservation of money, since on this supposition the whole money of the country must have gone from it and returned to it again, twice in a short period, without anyone's knowing anything of the matter! The channel of circulation, however, did not appear more empty than usual during any part of this period. Few people lacked money who had the wherewithal to pay for it. The profits of foreign trade, indeed, were greater than usual during the whole war and especially towards the end of it. This caused, as always, a general over-trading in all the ports of Great Britain; which led to the usual complaint about the scarcity of money, which always follows over-trading. Many people wanted money but did not have the wherewithal to buy it or credit to borrow it; and because the debtors found it hard to borrow, the creditors found it hard to get payment. But gold and silver were generally to be had for their value by those who had that value to give for them.

The enormous expense of the late war, therefore, must have been chiefly defrayed by the export of British commodities of some kind, not gold and silver. When a govern-

ment agent contracted with a merchant for a remittance to some foreign country, he would naturally try to pay his foreign correspondent (on whom he had granted a bill) by sending abroad commodities rather than gold and silver. If the commodities of Great Britain were not in demand in that country, he would try to send them to some other country where he could purchase a bill on that country. The transport of commodities, when properly suited to the market, always brings a considerable profit; whereas the transport of gold and silver seldom brings any. When those metals are sent abroad to purchase foreign commodities, the merchant profits not from the purchase but from the sale of the returns. But when they are sent abroad merely to pay a debt he gets no returns and consequently no profit. So he naturally works to find a way of paying his foreign debts by the export of commodities rather than gold and silver. . . .

Besides the three sorts of gold and silver I have mentioned, there is in all large commercial countries a good deal of bullion alternately imported and exported for the purposes of foreign trade. This bullion, as it circulates among different commercial countries in the same way that the national coin circulates in a particular country, can be regarded as the *money* of the great mercantile republic. The national coin receives its movement and direction from the commodities circulated within the precincts of the individual country; the money of the mercantile republic from the commodities circulated between countries. . . . Part of this money of the great mercantile republic was probably employed in carrying on the recent war. In time of a general war, it is natural to suppose that money should get a movement and direction different from what it usually follows in profound peace; that it should circulate more about the seat of the war, and be more employed in purchasing the pay and provisions of the armies there and in the neighbouring countries. But

whatever part of this 'money of the mercantile republic' Great Britain may have annually employed in this manner, it must have been annually *purchased*, with British commodities or with something purchased with them; which again brings us back to commodities, to the annual product of the land and labour of the country, as the ultimate resources that enabled us to carry on the war. It is natural indeed to suppose that so great an annual expense must have been defrayed from a great annual product. The expense of 1761, for example, amounted to more than £19,000,000. No accumulation could have supported so great an annual profusion. . . .

[Smith now offers a long discussion of ways in which various sorts of country can support a long war. Then:]

The importing of gold and silver is not the principal benefit, much less the only benefit, that a nation derives from its foreign trade. Between whatever places foreign trade is carried on, they all get two benefits from it. •It carries out the surplus part of the product of their land and labour for which there is no demand among them, and •brings back in return something for which there is a demand. . . . By opening a larger market for the surplus product of their labour, it encourages them to improve its productive powers and increase its annual product to the utmost, thereby increasing the society's real revenue and wealth. . . . Importing gold and silver into countries that have no mines is no doubt a part of the business of foreign commerce; but it is a most insignificant part of it. A country that carried on foreign trade merely for this purpose would hardly need to load one ship per century!

It is not by the import of gold and silver that the discovery of America has enriched Europe. [He discusses the changes that have arisen from the increased amount and thus the reduced price of those metals, describing them as 'trifling' and saying that they can't have 'made any very essential

change in the state of Europe'. Then:] The discovery of America did however make one most essential change. By opening a new and inexhaustible market for all the commodities of Europe it gave rise occasion to new divisions of labour and improvements of art, which could never have occurred in the narrow circle of the previous commerce because there was no market to support them. In all the countries of Europe the productive powers of labour were improved and its product increased, thus increasing the real revenue and wealth of the inhabitants. The commodities of Europe were almost all new to America, and many of those of America were new to Europe. A new set of exchanges began to take place which had never been thought of before, and which *should* naturally have proved as advantageous to the new continent as it certainly did to the old one. But this event, which ought to have been beneficial to all, was made ruinous and destructive to several of those unfortunate 'American' countries by the savage injustice of the Europeans.

The discovery of a passage to the East Indies by the Cape of Good Hope, which happened at about the same time, may have opened a still larger range to foreign commerce than even that of America, despite the greater distance. Only two nations in America were in any respect superior to savages, and these were destroyed almost as soon as they were discovered. The rest were mere savages. But the empires of China, Indostan, Japan, and several others in the East Indies, without having richer mines of gold or silver, were in every other respect much richer, better cultivated, and more advanced in all arts and manufactures than either Mexico or Peru—even if we credit, as obviously we shouldn't, the exaggerated accounts Spanish writers give of the former state of those empires. But rich and civilised nations can always exchange to a much greater value •with one another than •with savages and barbarians. Yet Europe has so far derived

much less advantage from its commerce with the East Indies than from its commerce with America. [He explains why. For a century the Portuguese monopolized the East India trade; then other European countries established companies (one each) with exclusive rights to that trade. Attacks on those companies, and their defences, have all been based on the fallacious idea that gold and silver are wealth. He goes on to say that he has thought it necessary, even at the risk of being 'tedious', to explain at length why it is a fallacy. Then:]

Once it was accepted that •wealth consists in gold and silver, and •that those metals can be brought into a country that has no mines only by the balance of trade, i.e. exporting to a greater value than it imports, it inevitably became the great object of political economy to reduce as much as possible the importation of foreign goods for home consumption and to increase as much as possible the exporting of the product of domestic industry. Its two great engines for enriching the country, therefore, were restraints on imports and encouragements to export.

The restraints on imports were of two kinds.

Restraints on the importing for home consumption of foreign goods that could be produced at home, whatever country they were imported from. [To be discussed in ch. 2]

Restraints on the importing of goods of almost all kinds from the particular countries with which the balance of trade was supposed to be disadvantageous. [ch. 3]

Those restraints consisted sometimes in high duties, sometimes in absolute prohibitions.

Exporting was encouraged sometimes by drawbacks, sometimes by bounties, sometimes by advantageous treaties of commerce with foreign states, and sometimes by the establishment of colonies in distant countries.

Drawbacks were given when the home manufactures were subject to any duty or excise, either the whole or a part of

it was often drawn back on their export; and when foreign goods liable to a duty were imported in order to be exported again, either the whole or a part of this duty was sometimes given back when such export occurred. [ch. 4]

Bounties were given for the encouragement of some beginning manufactures, and of industries of other kinds that were supposed to deserve particular favour. [ch. 5]

By advantageous treaties of commerce, particular privileges were procured in some foreign state for the goods and merchants of the country, beyond what were granted to those of other countries. [ch. 6]

By establishing colonies in distant countries, the goods and merchants of the country that established them often received not only particular privileges but a monopoly. [ch. 7]

The two sorts of restraints on imports and these four encouragements to export constitute the six principal means by which the commercial system proposes to increase the quantity of gold and silver in any country by turning the balance of trade in its favour. I shall consider each of them in a separate chapter, and without taking much further notice of their supposed tendency to bring **money** into the country I shall chiefly examine what effect each of them is likely to have on the annual product of the country's industry. According as they tend either to increase or reduce the value of this annual product they must evidently tend to increase or reduce the **real wealth** and revenue of the country.

## **Chapter 2: Restraints on importing from foreign countries goods that can be produced at home**

When high duties or absolute prohibitions restrain the importing from foreign countries of goods that can be produced at home, the domestic industry employed in producing those goods gets a monopoly (or something close to it) of the

home market. Thus the prohibition of importing either live cattle or salt provisions from foreign countries gives to the graziers of Great Britain the monopoly of the home market for butcher's meat. The high duties on imported corn, which in times of moderate plenty amount to a prohibition, give a similar advantage to the growers of corn. [He gives other examples—wool, silk, linen—and says that there are more than 'can easily be suspected by those who are not well acquainted with the laws of the customs'.]

These restraints encourage the particular industry, but they do not increase general industry or give it the best direction. It cannot be doubted that this monopoly of the home-market often turns towards one employment a greater share of the labour and stock of the society than would otherwise have gone to it. But whether it tends to increase the general industry of the society, or to give it the most advantageous direction, is less evident.

[Smith argues at great length that any wholesale merchant prefers home trade to foreign trade; it has fewer unknowns, and also keeps his goods more under his eye. Next, he says that someone employing his capital in some kind of industry will naturally want that industry to be as profitable (to him) as possible. That leads him to a very famous paragraph:]

But the annual revenue of every society is always precisely equal to the exchangeable value of the whole annual product of its industry, or rather is precisely the same thing as that exchangeable value. As every individual, therefore, tries as much as he can both to employ his capital in the support of domestic industry and to direct that industry so that its product may be of the greatest value, every individual necessarily works to make the annual revenue of the society as great as he can. He generally neither intends to promote the public interest nor knows how much he is promoting

it. By preferring the support of domestic to that of foreign industry he intends only his own security; and by directing that industry in such a way that its product has the greatest value, he intends only his own gain, and he is in this—as in many other cases—led by an **invisible hand** to promote an end that was no part of his intention. Nor is it always the worse for the society that it was no part of it. By pursuing his own interest he often promotes the interest of the society more effectively than when he really intends to promote it. I have never known much good done by those who claimed to trade for the public good. It is indeed something that merchants do not often claim, and very few words need be employed in dissuading them from it.

'What sort of domestic industry that my capital can employ is likely to have product of the greatest value?' is obviously a question to which the questioner can in his local situation give a much better answer than any statesman or lawgiver can give for him. A statesman who tried to tell private people how they ought to employ their capital would... assume an authority that could not safely be trusted to any single person, to any council or senate, and would be especially dangerous in the hands of a man who had folly and presumption enough to fancy himself fit to exercise it.

To give the monopoly of the home market to the product of domestic industry in any particular art or manufacture is to some extent to tell private people how they ought to employ their capital, and it must nearly always be either

- useless because the product of domestic industry *can* be brought there as cheap as that of foreign industry, or
- damaging because it *cannot*.

It is the maxim of every prudent master of a family never to try to make at home what it will cost him more to make than

to buy. The tailor does not try to make his own shoes; the shoemaker does not try to make his own clothes; the farmer does not try to make either, but employs those different artificers. All of them find it in their interest to employ their whole industry in a way in which they have some advantage over their neighbours, and to purchase with a part of its product—i.e. the price of a part of it—whatever else they need.

What is prudence in the conduct of every private family can hardly be folly in the conduct of a large kingdom. If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of the product of our own industry, employed in a way in which we have some advantage. The general industry of the country, being always in proportion to the capital that employs it, will not thereby be diminished, any more than that of the tailor and shoemaker, but only left to find out how it can be employed with the greatest advantage. It is certainly not employed to the greatest advantage when directed towards an object that it can buy cheaper than it can make. The value of its annual product is certainly lessened when it is turned away from producing commodities evidently of more value than the commodity it is directed to produce. . . .

[Smith now presents about four pages of extremely detailed discussion of governmental •restraints on the import of various commodities and •encouragement of the export of others. Some of these may be helpful to some people at some times, he says, but over-all they are bad for the country and thus bad for nearly everyone. He mockingly asks his opponents whether they would like to help the wine industry of Scotland by banning the import of French wines, since equally good wines can be made in Scotland, with the aid of hot-houses, at only 30 times the cost of French ones. Then:]

Country gentlemen and farmers are, to their great honour, the least subject of all people to the wretched spirit of monopoly. The undertaker of a great factory is sometimes alarmed if another work of the same kind is established within twenty miles of him. . . . Farmers and country gentlemen, on the other hand, are generally disposed to promote rather than to obstruct the cultivation and improvement of their neighbours' farms and estates. They have no secrets like those of most manufacturers, but are generally rather fond of communicating to their neighbours any new practice that they have found to be advantageous. . . . Country gentlemen and farmers, dispersed across the countryside, cannot combine as easily as merchants and manufacturers can. They, being collected into towns, and accustomed to the exclusive corporation spirit that prevails in towns, naturally try to obtain against all their countrymen the same exclusive privilege that they generally have against the inhabitants of their respective towns. They accordingly seem to have been the original inventors of the restraints on the importing of foreign goods that give them the monopoly of the home market. It was probably in imitation of them—and to put themselves on a level with those whom they found to be disposed to oppress them—that the country gentlemen and farmers of Great Britain so far forgot the generosity that is natural to their station [see Glossary] as to demand the exclusive privilege of supplying their countrymen with corn and butcher's meat. Perhaps they did not take time to consider how much less the freedom of trade could affect their interest than that of the people whose example they followed.

To prohibit by a perpetual law the importing of foreign corn and cattle is in reality to ensure that the population and industry of the country will never exceed what the rude product of its own soil can maintain.



There seem, however, to be two cases where it will generally be advantageous to lay some burden on foreign industry for the encouragement of domestic industry.

The **first** is when some particular sort of industry is necessary for the defence of the country. The defence of Great Britain, for example, depends very much on the number of its sailors and ships. So the act of navigation very properly tries to give Great Britain's sailors and shipping the monopoly of the trade of their own country—in some cases by absolute prohibitions, in others by heavy burdens on the shipping of foreign countries. He goes on to describe the four 'principal dispositions of this act'. Then:]

When the act of navigation was made, there was the most violent animosity between England and Holland, though they were not actually at war. . . . Some of the regulations of this famous act may have come from national animosity, but they are as wise as if they had all been dictated by the most deliberate wisdom. At that time national animosity aimed at the very same object that the most deliberate wisdom would have recommended, the reduction of the naval power of Holland, the only naval power which could endanger the security of England.

The act of navigation is not favourable to foreign commerce or to the growth of the affluence that can arise from it. In a nation's commercial relations to foreign nations its interest is like that of a merchant with regard to the people with whom he deals, to buy as cheap and to sell as dear as possible. It will be most likely to buy cheap when by the most perfect freedom of trade it encourages all nations to bring to it the goods it wants to purchase; and it will be most likely to sell dear when its markets are thus filled with the greatest number of buyers. The act of navigation, it is true, lays no burden on foreign ships that come to export the product of British industry. . . . But if foreigners are

hindered by prohibitions or high duties from coming to sell, they cannot always afford to come to buy; because when they come without a cargo they lose the freight from their own country to Great Britain. By reducing the number of sellers, therefore, we diminish the number of buyers, and are thus likely to buy foreign goods dearer *and* to sell our own cheaper than if there were a more perfect freedom of trade. As defence is much more important than affluence, however, the act of navigation is perhaps the wisest of all England's commercial regulations.

The **second** case in which it will generally be advantageous to lay some burden on foreign industry for the encouragement of domestic industry is when some tax is imposed at home on the product of the latter. In this case, it seems reasonable that an equal tax should be imposed on foreign product of the same kind. This would not give the monopoly of the home market to domestic industry, or give a particular employment a greater share of the country's stock and labour than would naturally go to it. It would only prevent any part of what would naturally go to it from being turned away by the tax into a less natural direction, leaving the competition between foreign and domestic industry as nearly as possible on the same footing as they were before the tax. When any such tax is laid on the product of domestic industry in Great Britain, it is usual at the same time—to stop our merchants' and manufacturers' clamorous complaints that they will be undersold at home—to lay a much heavier duty on the import of all foreign goods of the same kind.

Some people hold this:

This second limitation of the freedom of trade should sometimes be extended much further than to the precise foreign commodities that could compete with those that have been taxed at home. When the necessities of life have been taxed in a country, it

becomes proper to tax not only •similar necessities of life imported from other countries but •all sorts of foreign goods that can compete with any product of domestic industry. Subsistence inevitably becomes dearer in consequence of such taxes; and the price of labour must always rise with the price of the labourers' subsistence. . . . Such taxes are really equivalent to a tax on every particular commodity produced at home. In order to put domestic industry on the same footing as foreign industry, therefore, it becomes necessary to subject *every* foreign commodity to some duty equal to this increase in the price of the home commodities that it can compete with.

Do taxes on the necessities of life—such as those in Great Britain on soap, salt, leather, candles, etc.—necessarily raise the price of labour and thus of all other commodities? I shall address that question when I come to treat of taxes [starting on page ??]. Let us in the meantime stipulate that they certainly do have this effect; still, •this general increase in the price of all commodities because of the increase in the price of labour differs in two ways from •the increase in the price of a particular commodity because of a particular tax immediately imposed on it.

**(a)** It could always be known exactly how far the price of such a commodity would be raised by such a tax: but how far the general increase in the price of labour might affect that of every labour-involving commodity could never be known with any tolerable exactness. So it would be impossible to proportion the tax on every foreign commodity to this increase in the price of every home commodity.

**(b)** Taxes on the necessities of life have nearly the same effect on the circumstances of the people as a poor soil and a bad climate. They make provisions dearer in the same way as if it required extraordinary labour and expense to raise

them. Just as in the natural scarcity arising from soil and climate it would be absurd to tell the people how they ought to employ their capital and industry, so it is absurd to do that in the artificial scarcity arising from such taxes. What would obviously be most for their advantage in both cases would be: to be left to adjust their industry to their situation as well as they could, and to find the employments ·of capital· in which, despite their unfavourable circumstances, they might have some advantage either in the home or in the foreign market. To

- lay a new tax on them because they are already overburdened with taxes, and
- make them pay too much for most other commodities because they already pay too much for the necessities of life

is certainly a most absurd way of making amends!

[Smith declares that when such taxes reach 'a certain height' they are 'a curse', and that only a very well-endowed country can survive them, just as only a very strong person can thrive on a bad diet. He then switches to cases where 'it may be a matter of deliberation' whether the free import of foreign goods should be **(i)** continued or **(ii)** restored after an interruption.]

**(i)** It may sometimes be a matter of deliberation how far it is proper to continue the free import of certain foreign goods when some foreign nation restrains by high duties or prohibitions the importing of some of our manufactures into their country. Revenge in this case naturally dictates that we should retaliate, imposing similar duties and prohibitions on the import of some or all of their manufactures into our country. Nations seldom fail to retaliate in this way. [He gives examples of such conflicts, involving France, Holland, England, Spain, and Flanders.]

There may be good policy in retaliations of this kind when

there is a probability that they will procure the repeal of the high duties or prohibitions complained of. The recovery of a large foreign market will generally more than make up for the transitory inconvenience of paying more during a short time for some sorts of goods. To judge whether such retaliations are likely to produce such an effect does not perhaps belong so much to the science of a **legislator**, whose deliberations ought to be governed by general principles which are always the same, as to the skill of that insidious and crafty animal commonly called a **statesman** or **politician**, whose councils are directed by the momentary fluctuations of affairs. When there is no probability that any such repeal can be procured, it seems a bad method of making up for the harm done to certain classes of our people to do another harm to ourselves! . . .

(ii) It may sometimes be a matter of deliberation how far—and how—it is proper to restore the free import of foreign goods after an interruption when particular manufactures have been so far extended, by means of high duties or prohibitions on foreign goods competing with them, that they employ a great multitude of hands. Humanity may in this case require that the freedom of trade should be restored only slowly and cautiously. If those high duties and prohibitions were taken away all at once, cheaper foreign goods of the same kind might be poured into the home market so fast as suddenly to deprive many thousands of their ordinary employment and means of subsistence. The disorder which this would occasion might no doubt be very considerable, but it would probably be much less than is commonly imagined, for the two following reasons.

First, all the manufactures of which any part is commonly exported to other European countries without a bounty could not be much affected by the freest import of foreign goods. Such manufactures must be sold as cheap abroad

as any other foreign goods of the same quality and kind, and consequently must be sold cheaper at home. So they would still keep possession of the home market. . . . A great part of all the branches of our woollen manufacture, of our tanned leather, and of our hardware are annually exported to other European countries without any bounty, and these are the manufactures that employ the greatest number of hands. Silk is perhaps the manufacture that would suffer the most by this freedom of trade, and after that—a long way after—linen.

Secondly, even if restoring the freedom of trade suddenly threw many people out of their ordinary employment and common method of subsistence, it would by no means follow that they would thereby be deprived either of employment or subsistence. By the reduction of the army and navy at the end of the recent war more than 100,000 soldiers and seamen, a number equal to what is employed in the greatest manufactures, were suddenly thrown out of their ordinary employment; but though they no doubt suffered some inconvenience they were not deprived of all employment and subsistence. Probably most of the seamen gradually went into the merchant service as they could find openings, and in the meantime they and the soldiers were absorbed in the great mass of the people and employed in a great variety of occupations. This great change in the situation of more than 100,000 men, all accustomed to the use of arms and many of them accustomed to rapine and plunder, did not cause any great convulsion or even any noticeable disorder. The number of vagrants was hardly anywhere noticeably increased by it; even the wages of labour were not reduced by it in any occupation, so far as I have been able to learn, except in that of seamen in the merchant service. But the habits of any sort of manufacturer [see Glossary] do not tend to disqualify him from being employed in a new trade so

much as the habits of a soldier tend to prevent *him* from being employed in any. The manufacturer has always been accustomed to look for his subsistence from his labour only; the soldier to expect it from his pay. Application and industry have been familiar to the one; idleness and dissipation to the other. It is surely much easier to change the direction of industry from one sort of labour to another than to turn idleness and dissipation to any sort of labour. [He adds that many English workmen, if their line of work is destroyed by free trade, are equipped to move swiftly to other lines of work related to their previous one, if the law of the land didn't make this difficult.] When soldiers and seamen are discharged from the king's service they are free to exercise any trade in any town or place of Great Britain or Ireland. If the same natural liberty is restored to all his majesty's subjects; that is, if we

- break down the exclusive privileges of corporations,
- repeal the statute of apprenticeship, and
- repeal the law of settlements,

so that a poor workman, when thrown out of employment in one trade or in one place, may seek for it in another trade or in another place without fear from the law, neither the public nor the individuals will suffer much more from the occasional disbanding of some particular classes of manufacturers than from the disbanding of soldiers. Our manufacturers no doubt have great merit with their country, but they cannot have more than those who defend it with their blood, nor deserve to be treated with more delicacy.

To expect freedom of trade ever to be entirely restored in Great Britain is as absurd as to expect that an Oceana or Utopia should ever be established in it. The prejudices of the public and—much more unconquerable—the private interests of many individuals irresistibly oppose it. If the officers of the army opposed any reduction in the number of

forces with the same zeal and unanimity with which master manufacturers set themselves against every law that is likely to increase the number of their rivals in the home market; if the former animated their soldiers, in the same way that the latter enflame their workmen, to attack with violence and outrage the proposers of any such law; trying to reduce the army would be as dangerous as it has now become to try to reduce the monopoly that our manufacturers have obtained against us. This monopoly has so much increased the number of some particular tribes of them that, like an overgrown standing army, they have become formidable to the government, and on many occasions intimidate the legislature. The member of parliament who supports every proposal for strengthening this monopoly is sure to acquire not only •the reputation of understanding trade but also •great popularity and influence with an order of men whose numbers and wealth make them very important. On the other hand, if he opposes them—and still more if he has enough authority to be able to thwart them—neither the most acknowledged probity, nor the highest rank, nor the greatest public services can protect him from the most infamous abuse and detraction, from personal insults, sometimes from real danger, arising from the insolent outrage of furious and disappointed monopolists.

...The undertaker of a large manufacture had to abandon his trade because the home markets were *suddenly* laid open to the competition of foreigners would no doubt suffer very considerably. The part of his capital that had usually been employed in purchasing materials and paying his workmen might without much difficulty find another employment. But the part of it that was fixed in workshops and instruments of trade could hardly be disposed of without considerable loss. So a fair regard for his interests requires that changes of this kind should never be made suddenly;

they should come about slowly, gradually, and after a very long warning.

If the legislature's deliberations could be always directed not by the clamorous importunity of partial interests but by an extensive view of the general good, it ought to be particularly careful not to establish any new monopolies of this kind or to extend further those that are already established. Every such regulation introduces into the constitution of the state some degree of real disorder which it will be hard then to cure without creating another disorder.

How far it may be proper to impose taxes on the importing of foreign goods in order (not to prevent their import but) to raise revenue for government, I shall consider when I come to treat of taxes [starting on page ??]. Taxes imposed with a view to preventing or even to diminishing imports are obviously as destructive of the revenue of the customs as of the freedom of trade.

### **Chapter 3: Restraints on almost all imports from countries with which the trade balance is supposed to be disadvantageous**

#### **Part 1: The unreasonableness of those restraints even on the principles of the commercial system**

The second expedient by which the commercial system proposes to increase the quantity of gold and silver is putting special restraints on the import of almost all goods from particular countries with which the balance of trade is supposed to be disadvantageous. [He goes into details about 'prohibitive' duties protecting Great Britain from many imports from France, and concludes:] Those mutual restraints have put an end to almost all fair commerce between the two nations, and smugglers are now the principal importers

of British goods into France and of French goods into Great Britain. The principles I discussed in IV.2 took their origin from private interest and the spirit of monopoly; the ones I am going to discuss now arise from national prejudice and animosity. So they are (as you might expect) even more unreasonable. They are unreasonable even on the principles of the commercial system. There are three main objections to them.

(1) Even if it were certain that with free trade between France and England (for example) the 'balance' would be in favour of France, it by no means follows that such a trade would be disadvantageous to England, or that the general balance of its whole trade would thereby be turned more against it. If the wines of France are better and cheaper than those of Portugal, or its linens than those of Germany, it would be more advantageous for Great Britain to purchase the wine and foreign linen that it wanted from France than from Portugal and Germany. The value of annual *imports from France* would be greatly increased, but the value of the *whole annual imports* would be reduced in proportion as the French goods of the same quality were cheaper than those of the other two countries. This would be the case even if all the French goods imported were consumed in Great Britain.

(2) But a large part of them might be re-exported to other countries and sold there with profit, bringing a return that might equal in value the prime cost of all the French goods imported. What has often been said of the East India trade could be true of the French, namely that though most East India goods were bought with gold and silver, the re-export of some of them to other countries brought back to the exporting country more gold and silver than the prime cost of the whole amounted to. [He gives an example of how this works in Europe: 'some of the French wine drunk in Great Britain is clandestinely imported from Holland'.]

(3) There is no certain criterion by which to determine which way the 'balance of trade' between any two countries slopes, i.e. which of them exports to the greatest value. Our judgment on all questions about this is generally driven by national prejudice and animosity, prompted always by the private interest of particular traders. Two criteria, however, have often been appealed to in this context—the custom-house books and the exchange-rate. The custom-house books, I think it is now generally acknowledged, are a very uncertain criterion because of the inaccuracy of their valuations of most goods. The exchange-rate is perhaps almost equally so.

The case for using it as a marker of the balance of trade goes like this:

When the exchange between two places (e.g. London and Paris) is at par, this shows that debts due from London to Paris are balanced against those due from Paris to London. And when a premium is paid at London for a bill on Paris, this shows that the debts due from London to Paris are not balanced by those due from Paris to London, and that a balance in money must be sent out from London. The premium is demanded (and given) for the risk, trouble, and expense of exporting that money. But the ordinary state of debt and credit between the two cities must be regulated by the ordinary course of their dealings with one another. When neither imports from the other to a greater amount than it exports to that other, the debts and credits of each may balance out against one another. But when one of them imports from the other to a greater value than it exports to that other, the former becomes indebted to the latter for a greater sum than the latter becomes indebted to it: the debts and credits do not balance out, and money must be

sent out from the place whose debts over-balance the credits. The ordinary exchange-rate, therefore, being an indication of the ordinary state of debt and credit between two places, must likewise be an indication of the ordinary course of their exports and imports, because these necessarily regulate that state.

But even if the ordinary exchange-rate between two places is taken to be a sufficient indication of the ordinary state of debt and credit between them, it does not follow from this that the balance of trade is in favour of the place that has the ordinary state of debt and credit in its favour. The ordinary state of debt and credit between any two places is *not* always entirely regulated by the ordinary course of their dealings with one another; but is often influenced by dealings that either have with many other places. If it is usual, for example, for the merchants of England to pay for the goods they buy from Hamburg, Dantzic, Riga, etc. by bills on Holland, the ordinary state of debt and credit between England and Holland will not be regulated entirely by the ordinary course of the dealings of those two countries with one another, but will be influenced by that of the dealings of England with those other places. England may be obliged every year to send out money to Holland, even if its annual exports to that country greatly exceed the annual value of its imports from there—i.e. even if the 'balance of trade' is very much in favour of England.

[Smith devotes two pages to explaining three further reasons why the official 'exchange-rate' is misleading. The quality of coins differs in different countries—e.g. they may be worn or 'clipped' so as to contain less gold or silver than their announced value. Countries differ in how they handle the cost of turning bulk metal into coins—in some it is done by the government, in others by private enterprise—and that affects how coin money should be

computed. •Some places handle their foreign debts with something called ‘bank money’, which is worth more than the corresponding ‘common currency’, and this too helps to disguise the real state of affairs.]

[Smith here starts a six-page ‘digression’ concerning the banks of deposit, particularly Amsterdam’s. It is omitted here.]

### **Part 2: The unreasonableness of those special restraints on other principles**

In Part 1 of this Chapter I tried to show how unnecessary it is to put special restraints on the import of goods from countries with which the balance of trade is supposed to be disadvantageous.

But nothing can be more absurd than this whole doctrine of the ‘balance of trade’, on which these restraints and almost all the other regulations of commerce are founded. When two places trade with one another, this doctrine supposes that •if the balance is even then neither of them loses or gains, and that •if it leans to one side then that one loses and the other gains in proportion to the steepness of the slope. Both suppositions are false. A trade that is constrained by bounties and monopolies may be—and commonly is—disadvantageous to the country in whose favour it is meant to be established, as I shall try to show later. But trade that is naturally and regularly carried on between two places without force or constraint is always advantageous to both, though not always equally so.

By ‘advantage’ or ‘gain’ I do not mean increase of the quantity of gold and silver but the increase of the exchangeable value of the annual product of the land and labour of the country, i.e. the increase of the annual income of its inhabitants.

If the balance is even and the trade between the two

places consists entirely in the exchange of their native commodities, they will usually gain *equally*, or nearly so. . . . Some of the inhabitants of each will indirectly derive their income and maintenance from the other. As the commodities exchanged too are supposed to be of equal value, the two sides will usually employ nearly equal amounts of capital; and. . . .the income and maintenance that their distribution will provide to the inhabitants of each will be nearly equal. . . .

If one place exported to the other nothing but native commodities, while the returns of the other consisted entirely in foreign goods, the balance would still be supposed even, commodities being paid for with commodities. And here too they would both gain, but not equally: the inhabitants of the country that exported nothing but native commodities would derive the greater income from the trade. For example, if England imported from France nothing but the native commodities of that country, and annually repaid them by sending to France a large quantity of foreign goods (tobacco, say, and East India goods), this trade would give more income to the inhabitants of France than to those of England. The whole French capital annually employed in it would annually be distributed among the people of France, whereas most of the capital on the English side would be distributed among the people of the other countries from which the tobacco etc. originally came. . . .

. . . .Almost all countries exchange with one another partly native and partly foreign goods. The country in whose cargoes there is the greater proportion of native as against foreign goods will always be the principal gainer.

If England paid for the commodities annually imported from France not with tobacco and East India goods but with gold and silver, the balance would be supposed uneven because commodities were being paid for not with commodities but with gold and silver. In this case, the trade would

again give some income to the inhabitants of both countries, but more to those of France than to those of England. It would give some income to those of England. The capital that had been employed in producing the English goods that purchased this gold and silver—capital that had been distributed among certain inhabitants of England, giving them income—would be replaced and enabled to continue that employment. The whole capital of England not be lessened by this export of gold and silver, any more than it would by the export of an equal value of any other goods. On the contrary, it would in most cases be increased. Goods sent abroad are always ones for which the demand is supposed to be greater abroad than at home, so that the returns are expected to be of more value at home than the commodities exported. If the tobacco that in England is worth only a £100,000 when sent to France will purchase wine that is in England worth £110,000, the exchange will increase the capital of England by £10,000. If £100,000 of English gold purchases French wine that in England is worth £110,000, this exchange will equally increase the capital of England by £10,000. Just as a merchant who has £110,000 worth of wine in his cellar is a richer man than he who has only £100,000 worth of tobacco in his warehouse, so is he also richer than he who has only £100,000 worth of gold in his coffers. He can put more industry into motion and give income, maintenance, and employment to more people than either of the other two can. But the capital of the country is equal to the capitals of all its inhabitants, and the quantity of industry that can be annually maintained in it is equal to what all those capitals can maintain. So the capital of the country and the amount of industry that can be annually maintained in it must generally be increased by this exchange. It would, indeed, be more advantageous for England to purchase the wines of France with its own

hardware and broadcloth, than to purchase them with either the tobacco of Virginia or the gold and silver of Brazil and Peru. A direct foreign trade of consumption is always more advantageous than a roundabout one. But a roundabout foreign trade of consumption carried on with gold and silver, does not seem to be less advantageous than any other equally roundabout one. And a country with no mines is no more likely to run out of gold and silver because of this annual export of those metals than one that does not grow tobacco is likely to run out of that plant because of its annual export of it. Just as a country that has the wherewithal to buy tobacco will never be long in want of it, neither will one be long in want of gold and silver which has the wherewithal to purchase those metals.

It is said to be a losing trade that a workman carries on with the alehouse; and the trade a manufacturing nation would naturally carry on with a wine country can be seen in the same way. I answer that the trade with the alehouse is not necessarily a losing trade. In its own nature it is just as advantageous as any other, though perhaps more liable to be abused. . . . It will generally be more advantageous for a workman to buy from the brewer the quantity he wants than to brew it himself, and it will generally be more advantageous for a *poor* workman to buy it in small amounts from the retailer than to buy a large quantity of the brewer. He may no doubt buy too much, as he may buy too much from the butcher if he is a glutton, or from the draper if he wants to impress his companions by his dress. But it is advantageous to the great body of workmen that all these trades should be free, though this freedom may be abused in all of them and may be more likely to be abused in some than in others. Also: though individuals may sometimes ruin their fortunes by excessive consumption of fermented liquors, there seems to be no risk of a nation's



doing so. Though in every country there are many people who spend more on such liquors than they can afford, there are always many more who spend less. . . . The inhabitants of the wine countries are in general the soberest people in Europe—Spain, Italy, southern France. . . . It is often said that when a French regiment comes from northern to southern France, the soldiers are at first debauched by the cheapness and novelty of good wine; but after a few months residence most of them become as sober as the rest of the inhabitants. [He says that if duties on foreign wines and taxes on malt, beer, and ale were suddenly removed, there might be a general epidemic of drunkenness but that this would ‘probably soon be followed by permanent and almost universal sobriety’. These duties and taxes, he says, ‘favour the wine trade of Portugal and discourage that of France’, and on that note he modulates into a return to an earlier dispute:] There are those who say this:

The Portuguese are better customers for our manufactures than the French and should therefore be encouraged in preference to them. Because they give us their custom we should give them ours.

In this way the •sneaking arts of underling tradesmen are erected into •political maxims for the conduct of a great empire; for it is the most underling tradesmen only who make it a rule to buy mainly from their own customers. A great trader purchases his goods always where they are cheapest and best, without regard to any little interest of this kind.

By such maxims as these nations have been taught that their interest consists in beggaring all their neighbours. Each nation has been made to look with an invidious eye on the prosperity of all the nations it trades with, and to consider their gain as its own loss. Commerce among nations, as among individuals, ought naturally to be a bond of union

and friendship; but it has become the most fertile source of discord and animosity. During this century and the last, the capricious ambition of kings and ministers has not been more fatal to Europe’s peace than the impertinent jealousy of merchants and manufacturers. The violence and injustice of the rulers of mankind is an ancient evil, for which I am afraid the nature of human affairs can scarce admit of a remedy. But the meanly rapacious and monopolising spirit of merchants and manufacturers—who aren’t and shouldn’t be the rulers of mankind—though perhaps it cannot be corrected may very easily be prevented from disturbing the tranquillity of anyone but themselves.

That it was the spirit of monopoly that originally invented and propagated this doctrine cannot be doubted; and those who first taught it were by no means such fools as those who believed it. In every country it must always be the interest of most people to buy whatever they want from those who sell it cheapest. This is so obvious that it seems ridiculous to take trouble to prove it; and it could never have been called into question if the self-interested sophistry of merchants and manufacturers had not confounded the common sense of mankind. In this matter their interests are directly opposite to the interests of most the people. Just as it is in the interests of the freemen of a corporation to block the other inhabitants from employing any workmen but themselves, so it is in the interest of merchants and manufacturers to secure for themselves the monopoly of the home market. That is why Great Britain (like most other European countries) has

- special duties on almost all goods imported by alien merchants,
- high duties and prohibitions on all foreign manufactures that can compete with our own, and
- special restraints on the import of almost all sorts of goods from countries with which the balance of trade

is supposed to be disadvantageous, i.e. from those against whom national animosity happens to be most violently inflamed.

But the wealth of a neighbouring nation, though dangerous in war and politics, is certainly advantageous in trade. In war-time it may enable our enemies to maintain fleets and armies superior to our own; but in a state of peace and commerce it must enable them to exchange commodities with us to a greater value, and to provide a better market for the immediate product of our own industry or for whatever is purchased with that product. Just as a rich man is likely to be a better customer to the industrious people in his neighbourhood than a poor, so is a rich nation. It is true that a rich man who is himself a manufacturer is a dangerous neighbour to all those who deal in the same way; but all the rest of his neighbourhood—by far the majority—profit by the good market for whatever they are producing that his expense provides them with. They even profit by his underselling the poorer workmen who deal in the same way as him. No doubt the manufacturers of a rich nation may similarly be dangerous rivals to the manufacturers of neighbouring countries. But this very competition is advantageous to the great body of the people, who also profit by the good market that the great expense of such a nation provides them with in every other way. Individuals who want to make a fortune never think of retiring to the remote and poor provinces of their country, but resort to the capital city or to one of the great commercial towns. They know that where little wealth circulates there is little to be acquired, but that where a great deal is in motion some share of it may fall to them. The maxims that would in this way direct the common sense of one individual—or ten or twenty of them—should also regulate the judgment of one million people or ten or twenty million of them; and should make

a whole nation regard the riches of its neighbours as likely to bring riches to it too. . . . A large nation surrounded by wandering savages and poor barbarians might acquire riches by cultivating its own lands and by its own interior commerce, but not by foreign trade. That seems to be how. . . .the modern Chinese acquired their great wealth. . . . They are known to hold foreign commerce in the utmost contempt, and hardly deign to provide it the decent protection of the laws. The modern maxims of foreign commerce, by aiming at the impoverishment of all our neighbours, . . . tend to make that very commerce insignificant and contemptible.

It is because of these maxims that the commerce between France and England has been subjected to so many discouragements and restraints in both countries. If they were to consider their real interest, without mercantile jealousy or national animosity, France's commerce might be more advantageous to Great Britain than that of any other country, and vice versa. [He explains that because of the shortness of the distances, trade between southern England and France could be expected to bring 'returns' up to six times a year, as does inland trade, whereas most foreign trade could bring returns only about once a year, and he explains the importance of this:] So the capital employed in this trade could in each of the two countries keep in motion up to six times the quantity of industry, and provide employment and subsistence for up to six times as many people, as could an equal amount of capital in most of the other branches of foreign trade. Even the latter would still be three times more advantageous than the boasted trade with our North American colonies, in which the returns were seldom made in less than three years, often not in less than four or five years. Furthermore, France is said to have 24,000,000 inhabitants; our North American colonies were never supposed to have more than 3,000,000; and France is much richer than North

America (though there it has much more poverty and beggary because of its more unequal distribution of riches); so France could provide a market at least 8 times larger than what our North American colonies ever provided, and because of the greater frequency of the returns 24 times more advantageous. The trade of Great Britain would be just as advantageous to France, and . . . would have the same superiority over that which France carries on with her own colonies. Such is the difference between •the trade that the *wisdom* of both nations has thought proper to discourage and •the trade that it has favoured the most!

But the very circumstances that would have made open and free commerce between the two countries so advantageous to both have created the principal obstructions to that commerce. Being neighbours, they are necessarily enemies, so that the wealth and power of each becomes more formidable to the other; and what would increase the advantage of national friendship serves only to inflame the violence of national animosity. Both nations are rich and industrious; and the merchants and manufacturers of each dread competition from the skill and activity of those of the other. Mercantile jealousy is aroused, and this inflames and is inflamed by the violence of national animosity. The traders of both countries have announced, with all the passionate confidence of self-interested falsehood, that they would certainly be ruined by the unfavourable 'balance of trade' that would (they say) be the infallible effect of unrestrained commerce with the other.

[He says that this scare about ruin coming from free trade because of an unfavourable 'balance of trade' is often pronounced in every commercial country in Europe. He continues:] It does not appear that any nation in Europe has been in any way impoverished by freedom of trade. On the contrary, in proportion as any town or country has opened

its ports to all nations it has been enriched by this free trade, rather than being ruined by it as the principles of the commercial system predict. Actually, although a few European towns in some respects deserve the name of 'free ports', no European country does so. Holland is still far from it, though it may be closer than any other; and Holland, it is acknowledged, derives its whole wealth and a large part of its necessary subsistence from foreign trade.

[Smith now reminds the reader of a different balance, which *does* determine national 'prosperity or decay', namely the balance between •production and •consumption. Tilt this one way and the country slides downhill; tilt it the other and the country's affluence grows. This balance 'is entirely different from the so-called "balance of trade"'; a country has it (tilted one way or the other) even if it has no foreign trade; so does the whole earth.]

The balance of product and consumption may be constantly in favour of a nation though the so-called 'balance of trade' is generally against it. The following is possible:

A nation imports to a greater value than it exports for half a century; the gold and silver coming into it during all this time is immediately sent out of it again; its circulating coin gradually decays, being replaced by various kinds of paper money; the debts it contracts in the principal nations with whom it deals gradually increase; yet its real wealth—the exchangeable value of the annual product of its lands and labour—during the same period increases in a much greater proportion.

The state of our North American colonies, and of the trade with Great Britain that they conducted before the start of the present disturbances [i.e. the American Revolution], shows that this is in no way impossible.

## Chapter 4: Drawbacks

Merchants and manufacturers are not contented with the monopoly of the home market, but also want the most extensive foreign sale for their goods. Their country has no jurisdiction in foreign nations, and therefore can seldom get any monopoly there; so they generally have to settle for petitioning for certain *encouragements* to export.

Of these encouragements the ones called 'drawbacks' seem to be the most reasonable. To allow the merchant to *draw back* on export all or part of whatever excise or inland duty is imposed on domestic industry can never lead to the export of more goods than would have been exported if no duty had been imposed. Such encouragements do not tend to •turn towards any particular employment a greater share of the country's capital than would go to that employment of its own accord, but only to prevent the duty from •driving away any part of that share to other employments. They tend not •to overturn the balance that naturally establishes itself among the society's employments but only •to block it from being overturned by the duty. They tend not to destroy but to preserve what it is in most cases advantageous to preserve, namely the natural division and distribution of labour in the society.

The same thing holds for drawbacks on the re-export of imported foreign goods, which in Great Britain generally amount to by far the largest part of the duty on import. [He now has a couple of pages of details about what drawbacks there have been in Great Britain, about their history and what motivated them. Then:]

Drawbacks were perhaps originally granted for the encouragement of the carrying trade, which was supposed to be especially apt to bring gold and silver into the country because the freight of the ship is often paid by foreigners in

money. But though the carrying trade deserves no special encouragement, and though the motive for granting it drawbacks was abundantly foolish, these drawbacks themselves seem reasonable enough. They cannot force into this trade a greater share of the country's capital than would have gone to it of its own accord if there had been no duties on import; they only prevent its being excluded altogether by those duties. The carrying trade, though it deserves no preference, ought not to be precluded but left free like all other trades. It is a necessary resource for capital that cannot find employment in the country's agriculture or manufactures, whether in its home trade or in its foreign trade of consumption.

The revenue of the customs actually *profits* from such drawbacks, the profit being the part of the duty that is •not drawn back but •retained. If the whole duties had been retained, the foreign goods on which they are paid could seldom have been exported, nor consequently imported, for lack of a market, in which case the duties of which a part is retained would never have been paid.

These reasons seem sufficiently to justify drawbacks, and would justify them even if the *whole* duties on the product of domestic industry and on foreign goods were always drawn back on export. If that happened, the revenue of •excise would indeed suffer a little, and that of the •customs a good deal more; but the natural balance of industry—the natural division and distribution of labour—which is always somewhat disturbed by such duties would be more nearly re-established by such a regulation.

But these reasons justify drawbacks only on exporting goods to countries that are altogether foreign and independent, not to ones where our merchants and manufacturers enjoy a monopoly. For example, a drawback on the export of European goods to our American colonies will not always

lead to a greater export than would have occurred without it. Because of the monopoly that our merchants and manufacturers enjoy there, the same quantity might often be sent there even if the whole duties were retained. So the drawback may often be pure loss to the revenue of excise and customs, without altering the state of the trade or making it in any way larger. How far such drawbacks can be justified as a proper encouragement to the industry of our colonies, and how far it is advantageous to the mother country that they should be exempted from taxes that are paid by the rest of their fellow-subjects, will appear when I come to treat of colonies.

It must be understood that drawbacks are useful only when the goods for the export of which they are given really *are* exported to some foreign country and not clandestinely re-imported into our own. It is well known that some drawbacks, especially on tobacco, have often been abused in this manner, giving rise to many frauds that have been equally damaging both to the revenue and to the fair trader.

## Chapter 5: Bounties

In Great Britain bounties on export are often petitioned for and sometimes granted to the product of particular branches of domestic industry. The case for them goes like this:

Bounties will enable our merchants and manufacturers to sell their goods cheaper than their rivals in the foreign market. More will thus be exported, and the balance of trade consequently turned more in favour of our own country. We cannot give our workmen a monopoly in the foreign market as we have done in the home market. We cannot *force foreigners to buy* their goods, as we have done our own countrymen. The next best expedient is to *pay them for buying*.

This is how the mercantile system proposes to enrich the whole country, putting money into all our pockets, by means of the 'balance of trade'.

[Smith devotes more than twenty pages to attacking bounties. His opening shot, which is really the theme of the whole attack, is that the defenders of bounties only want them for 'branches of trade that cannot be carried on without them', and these, Smith says, ought to be allowed to die. Someone engaged in such a branch of business would, if he weren't helped by bounties, be led by self-interest to employ his capital on something else; which would be better for him and for the whole country.]

[He criticises at length a published defence of bounties in support of the export of corn, saying in effect that that author mishandled the mathematics of the situation. He agrees that the price of corn on the home market has fallen over several decades when there has been a bounty, but contends that this has happened 'in spite of the bounty, and cannot possibly have happened in consequence of it'.]

Whatever extension of the foreign market can be caused by the bounty must in each year be entirely at the expense of the home market: every bushel of corn that is exported by means of the bounty and would not have been exported otherwise would, absent the bounty, have remained in the home market, increasing the consumption and lowering the price of that commodity. Every bounty on export imposes two taxes on the people:

- the tax they are obliged to contribute in order to pay the bounty; and
- the tax arising from the advanced price of the commodity in the home market, a tax that must be paid by the whole body of the people if the commodity in question is (like corn) something that everyone purchases.

In the case of corn, this second tax is by far the heavier of the two. [He explains this in terms of a detailed analysis of a particular case. Having argued that a supposed rise in the price of corn is really a decrease in the price of silver, he moves over to a discussion of silver as such:]

The lowering in the value of silver that comes from the fertility of the mines, and occurs nearly equally through most of the commercial world, is of very little consequence to any country. The consequent rise of all money prices does not make those who receive them really richer, though it does not make them really poorer either. A service of silver-plate becomes really cheaper, and everything else remains of precisely the same real value as before.

But the lowering in the value of silver that occurs in just one country, because of that country's special situation or political institutions, is a matter of very great consequence; far from tending to make anyone really richer, it tends to make everyone really poorer. The rise in the money price of all commodities, which is special to that country, tends to discourage more or less every sort of industry that is carried on within it, and to enable foreign nations to provide most sorts of goods for less silver than its own workmen can afford to do, thus underselling them not only in the foreign but even in the home market.

It is the special situation of Spain and Portugal, as proprietors of the mines, to be the distributors of gold and silver to all the other countries of Europe. So those metals ought naturally to be somewhat cheaper in Spain and Portugal than elsewhere in Europe; but the difference should be no more than the amount of the freight and insurance; and the freight is no great matter because of the great value and small bulk of those metals, and their insurance is the same as that of any other goods of equal value. Spain and Portugal, therefore, would have suffered very little from their special

situation if they had not increased its disadvantages by their political institutions.

Spain by taxing the export of gold and silver, and Portugal by prohibiting it, load that export with the expense of smuggling, an expense that raises the value of those metals in other countries above what it is in their own. When you dam a stream of water, as soon as the dam is full as much water must run over the dam-head as if there was no dam at all. The prohibition of export cannot hold back in Spain and Portugal more gold and silver than they can afford to employ—i.e. more than the annual product of their land and labour will allow them to employ—in coin, plate, gilding, and other ornaments of gold and silver. When they have this amount, the dam is full and the whole stream that flows in afterwards must run over. [He now devotes about three pages to explaining how those two countries have been harmed by their policies regarding the export of gold and silver. Then:]

The bounty on the export of corn operates exactly in the same way as this absurd policy of Spain and Portugal. Whatever be the actual state of farming, it makes our corn somewhat dearer in the home market than it otherwise would be, and somewhat cheaper in the foreign; and as the average money price of corn regulates that of all other commodities, it considerably lowers the value of silver at home and tends to raise it a little in other countries. It enables foreigners—especially the Dutch—to eat our corn cheaper than they otherwise could do but even sometimes to eat it cheaper than our own people can do on the same occasions. . . . It prevents our own workmen from providing their goods for as small an amount of silver as they otherwise might do, and enables the Dutch to provide theirs for a smaller. It tends to make our manufactures somewhat dearer in every market than they otherwise would be, and to make theirs somewhat cheaper, this giving their industry a double

advantage over our own.

The bounty does not increase the amount of labour that a certain amount of corn can maintain and employ, but only the amount of silver it will exchange for; so what it does in the home market is to raise not the real price of our corn but only its nominal price. The result is that it discourages our manufactures, without doing any considerable service to our farmers or our country gentlemen. It does indeed put a little more money into the pockets of both groups, and it may be hard to persuade most of them that this is not doing them a considerable service. But if this money *sinks in its value*—in the quantity of labour, provisions, and home-made commodities it can purchase—by as much as it *rises in its quantity*, the service will be little more than nominal and imaginary.

There was just one set of men in the whole commonwealth to whom the bounty could be essentially serviceable. These were the corn merchants, the exporters and importers of corn.

- In years of plenty the bounty led to a greater export than would otherwise have taken place; and
- by stopping the plenty of one year from relieving the scarcity of another, it led in years of scarcity to a greater import than would otherwise have been necessary.

It increased the corn merchant's business at both times; and in times of scarcity it enabled him not only to import more corn but to sell it for a higher price and thus with a greater profit than he could have if one year's plenty had not been hindered from relieving another year's scarcity. So it is in this set of men that I have observed the greatest zeal for continuing or renewing of the bounty.

When our country gentlemen imposed on the export of foreign corn high duties which in times of moderate plenty

amounted to a prohibition, and when they established the bounty, they seemed to be imitating the conduct of our manufacturers. By the virtual prohibition, they secured for themselves the monopoly of the home market; and by the bounty, they tried to prevent that market from being overstocked with their commodity. By both they tried to raise its real value, in the same sort of way as our manufacturers had raised the real value of many sorts of manufactured goods. They apparently overlooked the great and essential difference that nature has established between •corn and •almost every other sort of goods. When, by the monopoly of the home market or a bounty on export, you enable our **woollen or linen** manufacturers to sell their goods for a better price than they otherwise could get for them, you raise not only the *nominal* but the *real* price of those goods; you make them equivalent to a greater quantity of labour and subsistence; you increase not only the nominal but the real profit, the real wealth and income of those manufacturers; and you enable them to live better themselves or to employ more labour in those particular manufactures. You really encourage those manufactures, directing towards them more of the country's industry than would properly go to them of its own accord. But when by similar devices you raise the nominal or money price of **corn**, you do not raise its real value; you do not increase the real wealth, the real income, of our farmers or our country gentlemen; you do not encourage the growth of corn, because you do not enable them to maintain and employ more labourers in raising it. The nature of things has stamped on corn a real value that cannot be altered by merely altering its money price. No bounty on export, no monopoly of the home market, can raise that value. The freest competition cannot lower it. That value is in each place equal to the amount of labour it can maintain in the way labour is commonly maintained

in that place, whether that be liberal, moderate, or scanty. Woollen or linen cloth are not the regulating commodities by which the real value of all other commodities must be finally measured and determined; corn is. The real value of every other commodity is finally measured and determined by the proportion which its average money price bears to the average money price of corn. The real value of corn does not vary with those variations in its average money price, which sometimes occur from one century to another; it is the real value of silver that varies with them. . . .

One would have thought that a bounty on production would more directly encourage the production of a commodity than a bounty on export could. Also, it would impose only one tax on the people—what they have to contribute to pay the bounty. It would tend to lower the price of the commodity in the home market, thereby partly repay them for what they had contributed, instead of imposing a second tax on them, which is what bounties on export do. Yet bounties on production have rarely been granted. The prejudices established by the commercial system have taught us to believe that national wealth arises more immediately from export than from production, so export has been more favoured as the more immediate means of bringing money into the country. . . . Also, it is not in the interests of merchants and manufacturers (the great inventors of all these expedients) that the home market should be overstocked with their goods, which a bounty on production might sometimes cause to happen. . . .

Something like a bounty on production, however, has sometimes been granted. The tonnage bounties given to the white herring and whale fisheries may be seen in this light. They tend directly, it may be supposed, to make the goods cheaper in the home market than they would have been otherwise. But in other respects their effects are the same

as those of bounties on export. By means of them, a part of the country's capital is employed in bringing to market goods whose price does not repay the cost, together with the ordinary profits of stock.

But though the tonnage bounties to those fisheries do not contribute to the nation's affluence, the following may be thought of them:

They contribute to the nation's defence by increasing the number of its sailors and shipping. This can sometimes be done by means of such bounties, at a much smaller expense than by keeping up a great standing navy (so to speak) in the same way as a standing army.

But the following considerations dispose me to believe that in granting at least one of these bounties the legislature has been grossly imposed on. [Smith spends about five pages on this topic; they are not included here. We pick up when he returns to the idea of bounties as an aid to national defence.]

If any particular manufacture was needed for the defence of the society, it might not always be prudent to depend on our neighbours to supply it; and if such a manufacture could not otherwise be supported at home it might not be unreasonable that all the other branches of industry should be taxed in order to support it. The bounties on the export of British-made sail-cloth and gunpowder may perhaps be vindicated on this principle. . . .

What is called a bounty is sometimes no more than a drawback, and thus not open to the same objections as a bounty properly so-called. For example: the bounty on exported refined sugar may be considered as a drawback of the duties on the brown and Muscovado sugars from which it is made. [He gives two other examples, and explains why those drawbacks are called 'bounties'.]



Premiums given by the public to skilled artisans and manufacturers who excel in their particular occupations are not open to the same objections as bounties. By encouraging extraordinary dexterity and ingenuity, they serve to keep up the emulation [here = 'desire to improve'] of the workmen actually employed in those occupations, and are not large enough to turn towards any one occupation a larger share of the country's capital than would go to it of its own accord. Their tendency is not to overturn the natural balance of employments but to make the work done in each as perfect and complete as possible. Also, the expense of premiums is very trifling, that of bounties very great. The bounty on corn alone has sometimes cost the public more than £300,000 in a single year.

I cannot conclude this chapter about bounties without remarking that the praises that have been bestowed on the law establishing the bounty on the export of corn and on the system of regulations connected with it are altogether unmerited. A detailed examination of the nature of the corn trade and of the principal British laws relating to it will sufficiently demonstrate the truth of this assertion. The great importance of this subject must justify the length of the digression. [Despite Smith's defence of its length, this 14-page 'digression' is not included here.]

## Chapter 6: Treaties of commerce

When a nation binds itself by treaty

- to permit the entry of certain goods from one foreign country that it prohibits from all others, or
- to exempt the goods of one country from duties to which it subjects those of all others,

the merchants and manufacturers of the country whose commerce is so favoured must get great advantage from the

treaty. They enjoy a sort of monopoly in the country that is so indulgent to them. That country provides their goods with a market that is

- larger, because the goods of other nations are excluded or subjected to heavier duties, so that more of theirs are bought, and
- more advantageous, because they enjoy a sort of monopoly there, and can often sell their goods for a better price than they could if exposed to the free competition of all other nations.

But such treaties, though advantageous to the merchants and manufacturers of the favoured country, are disadvantageous to those of the favouring one. A monopoly is thus granted against them to a foreign nation; and they must often buy the foreign goods they need at a higher price than if the free competition of other nations was admitted. The part of its own product with which such a nation purchases foreign goods must consequently be sold cheaper; because when two things are exchanged for one another the cheapness of the one is a necessary consequence of—or rather it is the same thing as—the dearness of the other. So the exchangeable value of its annual product is likely to be lessened by every such treaty. But this lessening can hardly amount to any positive loss, but only to a reduction in the gain that it might otherwise make. . . . Even the favouring country, therefore, may still gain by the trade, though less than if there was a free competition.

Some treaties of commerce, however, have been supposed to be advantageous for reasons very different from those; and a commercial country has sometimes granted to certain goods of a foreign nation a monopoly of this kind against itself, because it expected that in the whole commerce between the two it would annually sell more than it would buy, and that a balance in gold and silver would be annually returned

to it. That is why the 1703 the treaty of commerce between England and Portugal has been so much commended. The following is a literal translation of that treaty, which consists of three articles only. [He now states the three articles of the treaty. Then:]

By this treaty, the crown of Portugal becomes bound to admit English woollens on the same footing as before the prohibition, i.e. not to raise the duties that had been paid before that time. But it does not become bound to admit them on any better terms than those of any other nation such as France or Holland. The crown of Great Britain, on the other hand, becomes bound to admit the wines of Portugal paying only two-thirds of the duty that is paid for those of France, the wines most likely to compete with them. So far this treaty is obviously advantageous to Portugal and disadvantageous to Great Britain.

Yet it has been celebrated as a masterpiece of the commercial policy of England. Portugal receives annually from the Brazils a greater quantity of gold than can be employed—whether as coin or plate—in its domestic commerce. The surplus is too valuable to be allowed to lie idle and locked up in coffers; and as it can find no advantageous market at home it must (despite any prohibition) be sent abroad and exchanged for something for which there is a more advantageous market at home. A large share of it comes annually to England, in return for English goods or goods of other European nations that receive their returns through England. . . .

Some years ago our merchants were out of humour with the crown of Portugal. Some privileges had been granted them, not by treaty but by the free grace of the Portuguese crown, in return for much greater favours, defence and protection from the crown of Great Britain; and then these privileges were infringed or revoked. So the people who had

usually been most interested in celebrating the Portugal trade became disposed to represent it as less advantageous than it had commonly been imagined. Nearly all of this annual import of gold, they claimed, was on account not of Great Britain but of other European nations; the value of the British goods sent to Portugal were nearly balanced by the fruits and wines annually imported from there.

Let us suppose, however, that the whole *was* on account of Great Britain, and that it amounted to a still greater sum than the recently estimated £2,600,000 a year (which is in fact too high). That would still not make this trade more advantageous than any other in which, for the same value sent out, we received an equal value of consumable goods in return.

Only a very small part of this import of gold could be employed as an annual addition to the •plate or the •coin of the kingdom. The rest would all have to be sent abroad in exchange for consumable goods of some kind. But it would be more advantageous for England •to purchase those consumable goods directly with the product of English industry than first •to purchase with that product the gold of Portugal and then •to purchase with that gold those consumable goods. A direct foreign trade of consumption is always more advantageous than a roundabout one; and to bring the same value of foreign goods to the home market requires much less capital in the one way than in the other. Thus, if a smaller share of its industry had been employed in producing goods for the Portugal market, and a greater share employed in producing goods for other markets that could provide consumable goods for which there is a demand in Great Britain, it would have been more to England's advantage. . . .

Even if Britain were entirely excluded from trade with Portugal, it would have little difficulty in procuring all the annual supplies of gold that it wants for the purposes of **plate**,

**coin**, or **foreign trade**. Gold, like every other commodity, can always be acquired somewhere or other by those who have the appropriate value to give for it. [He adds that gold would still go from Portugal to some other countries, and Great Britain could buy some of it from them—a little more expensively than buying it ‘at first hand’, but the difference would not be significant.]

The great annual import of gold and silver is for the purpose not of plate or of coin but of **foreign trade**. A roundabout foreign trade of consumption can be carried on more advantageously by means of these metals than of almost any other goods. Because they are the universal instruments of commerce they are more readily received in return for all commodities than any other goods; and because of their small bulk and great value it costs less to transport them than almost any other sort of merchandise, and they lose less of their value by being so transported. Thus, of all the commodities that are bought in one foreign country purely to be sold or exchanged for other goods in another, none are as convenient as gold and silver. The principal advantage of the Portugal trade is that it facilitates all the roundabout foreign trades of consumption that are carried on in Great Britain; though not a capital advantage, it is no doubt a considerable one.

It seems obvious enough that any annual addition that is made to the plate or the coin of the kingdom could require only a very small annual import of gold and silver. Even if we had no direct trade with Portugal, this small quantity could always be easily acquired somewhere.

Though the goldsmith’s trade is very considerable in Great Britain, most of the new **plate** that they sell is made from old plate melted down; so that the addition annually made to the whole plate of the kingdom cannot be very great. . . .

It is the same case with the **coin**. [Smith now embarks on about six pages of discussion of the use of gold in coinage: the effect of having coinage in which many of the coins weigh less than they should, the cost to the government of turning metal into coins, and so on. Running through all this is his contempt for the ‘mercantile’ theory, which equates money or gold with wealth.]

## Chapter 7: Colonies

### Part 1. Motives for establishing new colonies

The interest that led to the first settlement of European colonies in America and the West Indies was not altogether as plain and distinct as that which directed the establishment of the colonies of ancient Greece and Rome.

Each of the states of ancient Greece possessed only a very small territory; and when the people in any one of them multiplied beyond what that territory could easily maintain, some of them were sent in quest of a new habitation in some remote and distant part of the world; because the warlike neighbours who surrounded them made it difficult for any of them to enlarge its territory at home. The colonies of the Dorians resorted chiefly to Italy and Sicily, which before the foundation of Rome were inhabited by barbarous and uncivilised nations; the colonies of the Ionians and Aeolians, the two other great tribes of the Greeks, went to Asia Minor and the islands of the Aegean sea, whose inhabitants seem to have been in pretty much the same state as those of Sicily and Italy. Each mother city, though she considered the colony as a child—always entitled to great favour and assistance and owing in return much gratitude and respect—regarded it as an *emancipated* child over whom she claimed no direct authority or jurisdiction. The colony

settled its own form of government, enacted its own laws, elected its own magistrates [see Glossary], and made peace or war with its neighbours, as an independent state that had no reason to wait for the mother city's approval or consent. Nothing can be more plain and distinct than the interest that directed every such establishment.

Rome, like most of the other ancient republics, was originally founded on an agrarian law that divided the public territory among the citizens who composed the state. The course of human affairs. . . inevitably upset this original division, and often put lands that had been allotted for the maintenance of many families into the possession of a single person. A law that was made to remedy this was neglected or evaded, and the inequality of fortunes continually increased. Most of the citizens had no land; and the manners and customs of those times made it hard for a landless freeman to maintain his independence. [Smith explains that nearly all the farming, as well as 'trades and manufactures, even the retail trade' were manned by slaves who belonged to the rich.] So the citizens who had no land had hardly any means of subsistence except the handouts by the candidates at the annual elections. When the tribunes wanted to arouse the people against the rich and great, they •reminded them of the ancient divisions of lands and •claimed that the law restricting this sort of private property was the fundamental law of the republic. The people became clamorous to get land, and the rich and the great were no doubt perfectly determined not to give them any part of theirs. To satisfy them in some measure, therefore, they often proposed to send out a new colony. But Rome the conqueror did not need to turn her citizens out to seek their fortune through the wide world, without knowing where they were to settle, but assigned them lands generally in the conquered provinces of Italy. There they were still within the dominions of the

republic, and could never form an independent state; they were at best only a sort of corporation, which had the power to enact bye-laws for its own government but was always subject to the correction, jurisdiction, and legislative authority of the mother city. Sending out a colony of this kind not only gave some satisfaction to the people but often established a sort of garrison in a newly conquered province whose obedience might otherwise have been doubtful. A Roman colony, therefore, whether we consider the nature of the establishment itself, or the motives for making it, was altogether different from a Greek one. . . . But though the Roman colonies were in many ways unlike the Greek ones, the interest that prompted their establishment them was equally plain and distinct. Both institutions derived their origin from irresistible necessity or from clear and evident utility.

The establishment of European colonies in America and the West Indies arose from no necessity; and though the utility resulting from them has been very great, it is not as clear and evident. It was not understood at their first establishment, and was not the motive for that establishment or for the discoveries that led to it; and the nature, extent, and limits of that utility are perhaps not well understood even today.

During the 14th and 15th centuries the Venetians carried on a very advantageous commerce in spices and other East India goods, which they distributed among the other nations of Europe. They purchased them chiefly in Egypt, at that time under the dominion of the Mamelukes who were enemies of the Turks as were also the Venetians; and this union of interests, assisted by the money of Venice, formed a connection that gave the Venetians almost a monopoly of that trade.

The great profits of the Venetians tempted the greed of

the Portuguese. Through the 15th century they had been trying to find a sea route to the countries from which the Moors brought them ivory and gold dust across the desert. They discovered the Madeiras, the Canaries, the Azores, the Cape Verde islands, the coast of Guinea, that of Loango, Congo, Angola, and Benguela, and finally the Cape of Good Hope. They had long wished to share in the profitable traffic of the Venetians, and this last discovery opened to them a probable prospect of doing so. In 1497, Vasco de Gama sailed from Lisbon with four ships, and after a navigation of eleven months arrived at the coast of Indostan—thus completing a course of discoveries that had been pursued with great steadiness and little interruption for nearly a century.

Some years before this. . . . a Genoese pilot formed the still more daring project of sailing to the East Indies by the west. The situation of those countries was at that time very imperfectly known in Europe. The few European travellers who had been there had magnified the distance, perhaps through innocence and ignorance (what really was very large seemed almost infinite to those who could not measure it), or perhaps in order to inflate the marvellous nature of their own adventures in visiting regions so immensely remote from Europe. The longer the way was by the east, Columbus very justly concluded, the shorter it would be by the west. So he proposed to take that way, as the shortest and surest, and he had the good fortune to convince Isabella of Castile of the probability of his project. He sailed from Palos in August 1492, nearly five years before Vasco de Gama set out from Lisbon; and after a voyage of two to three months discovered some of the small Bahama or Lucyan islands and then the great island of Santo Domingo.

But the countries Columbus discovered in this and his subsequent voyages had no resemblance to the ones he had gone in quest of. Instead of the wealth, cultivation, and

populousness of China and Indostan, he found in all the other parts of the new world that he ever visited nothing but a country quite covered with forests, uncultivated, and inhabited only by naked and miserable savages. He was not very willing, however, to believe that they were not some of the countries described by Marco Polo, the first European who had left behind him any description of China or the East Indies. . . . Even when at last convinced that they were different, he still flattered himself that those rich countries were at no great distance. . . .

Because of this mistake by Columbus, the name 'Indies' has stuck to those unfortunate countries ever since; and when it was at last clearly discovered that the new 'indies' were different from the old Indies, the labels 'West Indies' and 'East Indies' were adopted.

It was important to Columbus that the countries he had discovered should be represented to the court of Spain as of very great consequence; but in what constitutes the real riches of every country—the animal and vegetable productions of the soil—there was at that time nothing to justify such a representation of them. [Smith goes into details about what plants and animals there were, and why they were not of value to the Europeans. The best bet was cotton, but even this 'could not at that time appear in the eyes of Europeans to be of much consequence'.]

#### ·THE SEARCH FOR GOLD IN THE WEST·

Columbus then turned his view towards the minerals of the newly discovered countries; and in the richness of their productions of this third kingdom he flattered himself that he had found a full compensation for the insignificance of those of the other two. [The three 'kingdoms' are animal/vegetable/mineral.] The little bits of gold which the inhabitants ornamented their dress with, and which (he

was told) they often found in the rivers that fell from the mountains, were enough to satisfy him that those mountains abounded with the richest gold mines. Santo Domingo was therefore declared to be a country abounding with **gold**, and therefore (according to the prejudices not only of today but of those times) an inexhaustible source of **real wealth** to the crown and kingdom of Spain. On returning from his first voyage, Columbus was introduced with triumphal honours to the sovereigns of Castile and Aragon, and the principal productions of the countries he had discovered were carried in solemn procession before him. The only valuable part of them consisted in some little fillets, bracelets, and other ornaments of gold, and in some bales of cotton. The rest were mere objects of vulgar wonder and curiosity. . . ., which were preceded by six or seven of the wretched natives, whose singular colour and appearance added greatly to the novelty of the show.

On the strength of Columbus's claims the council of Castile determined to take possession of the countries whose inhabitants were plainly incapable of defending themselves. The pious purpose of converting them to Christianity sanctified the injustice of the project; but the sole motive for it was the hope of finding treasures of gold. To give this motive greater weight, it was proposed by Columbus that half of all the gold and silver found there should belong to the crown. This proposal was approved by the council.

As long as most of the gold that the first adventurers imported into Europe was acquired by such an easy method as plundering the defenceless natives, it was not perhaps very difficult to pay even this heavy (.50%) tax; but once the natives had been stripped of all they had—which took only six or eight years in all the countries discovered by Columbus—so that more could be found only by digging for it in the mines, it was no longer possible to pay this tax. It

is said that the strict demand for all of it led at first to the total abandoning of the mines of Santo Domingo, which have never been worked since. It was soon reduced, therefore, to 33.3%, then to 20%, down to 10% and at last to 5% of the raw product of the gold mines. The tax on silver continued for a long time to be 20%, and was reduced to 10% only in the present century. But the first adventurers appear not to have been much interested in silver. Nothing less precious than gold seem to have been worthy of their attention.

All the other enterprises of the Spaniards in the New World, subsequent to those of Columbus, seem to have been prompted by the same motive. It was the sacred thirst for gold that carried Ovieda, Nicuessa, and Vasco Nugnes de Balboa to the Isthmus of Darien; that carried Cortes to Mexico, and Almagro and Pizarro to Chile and Peru. When those adventurers arrived at any unknown coast, their first inquiry was always whether there was any gold to be found there; and according to the answer they decided either to quit the country or to settle in it.

Of all the expensive and uncertain projects that bring bankruptcy on most of those who engage in them, there may be none more totally ruinous than the search for new silver and gold mines. It is the most disadvantageous lottery in the world, i.e. the one in which the gain of those who draw the prizes is smallest in proportion to the loss of those who draw the blanks; for although the prizes are few and the blanks many, the common price of a ticket is the whole fortune of a very rich man. Projects of mining, instead of replacing the capital employed in them together with the ordinary profits of stock, commonly absorb both capital and profit. So they are the projects that a prudent lawgiver, wanting to increase the capital of his nation, would *least* choose to give any special encouragement by directing towards them a greater share of that capital than would go to them of its own accord. . . .

But though the judgment of sober reason and experience concerning such projects has always been extremely unfavourable, the 'judgment' of human greed has commonly been quite otherwise. The same passion that has suggested to so many people the absurd idea of the philosopher's stone—a mythical substance that turns lead into gold—has suggested to others the equally absurd idea of immense rich mines of gold and silver. They did not consider that the value of those metals has always and everywhere arisen chiefly from their scarcity, which has arisen from •the small quantities of them that nature has anywhere deposited in one place, from •the hard and intractable substances she has almost everywhere surrounded those small quantities with, and consequently from •the labour and expense that are everywhere necessary to mine them. They flattered themselves that in many places they might find veins of those metals as large and as abundant as those that are commonly found of lead, copper, tin, or iron. The dream of Sir Walter Raleigh concerning the golden city and country of El Dorado may satisfy us that even wise men are not always exempt from such strange delusions. More than a hundred years after that great man's death, the Jesuit Gumila was still convinced of the reality of that wonderful country, spoke with great warmth (and, I dare say, with great sincerity) about how happy he would be to carry the light of the gospel to a people who could so well reward the pious labours of their missionary.

In the countries first discovered by the Spaniards, no gold and silver mines are at present known that are supposed to be worth working. The quantities of those metals that the first adventurers are said to have found there was probably much magnified, as well as the fertility of the mines that were worked immediately after the first discovery. What those adventurers were reported to have found, however,

was sufficient to inflame the greed of all their countrymen. Every Spaniard who sailed to America expected to find an El Dorado. And on this occasion fortune did what she has seldom done, by realizing to some extent the extravagant hopes of her devotees. In the discovery and conquest of Mexico and Peru (which were, respectively, about 30 and 40 years after Columbus's first expedition) she presented them with something not very unlike that profusion of the precious metals that they sought for.

Thus, a project of commerce to the East Indies gave rise to the first discovery of the West. A project of conquest gave rise to all the Spaniards' establishments in those newly discovered countries. The motive that excited them to this conquest was a project of gold and silver mines; and a series of events that no human wisdom could foresee made this project much more successful than its undertakers had any reasonable grounds for expecting.

The first adventurers of the other European nations who tried to make settlements in America were driven by the same chimerical views, but they were not equally successful. No silver, gold, or diamond mines were discovered in the Brazils until more than a hundred years after the first settlement there. In the English, French, Dutch, and Danish colonies none have yet been discovered, or none that are at present thought to be worth working. Yet the first English settlers in North America offered the king 20% of all the gold and silver found there, as a motive for granting them their patents. . . . To the expectation of finding gold and silver mines, those first settlers joined that of discovering a north-west passage to the East Indies. They have been disappointed in both.

**Part 2. Causes of the prosperity of new colonies**

The colony of a civilised nation that takes possession of a country that is either empty or so thinly inhabited that the natives easily give place to the new settlers, advances to wealth and greatness more rapidly than any other human society. [In this context 'greatness' means 'size of population'.]

The colonies carry out with them a knowledge of agriculture and of other useful arts, superior to what can grow up of its own accord, in the course of many centuries, among savage and barbarous nations. They also carry out with them the habit of subordination, some notion of the regular government that occurs in their own country, of the system of laws that support it, and of a regular administration of justice; and they naturally establish something of the same kind in the new settlement. Among savage and barbarous nations the natural progress of law and government is still slower than the natural progress of arts, once enough law and government have been established for the arts to be protected. Every colonist gets more land than he can possibly cultivate. He has no rent to pay, and hardly any taxes. No landlord shares with him in its product, and, the sovereign's share is commonly a mere trifle. The colonist has every motive to make as great as possible this product that is thus to be almost entirely his own. But his land is commonly so extensive that with all the industry of himself of other people whom he can employ he can seldom make it produce a tenth of what it is capable of producing. This makes him eager to collect labourers from all quarters, and to reward them with the most liberal wages. But those liberal wages, combined with the plenty and cheapness of land, soon make those labourers leave him so as to become landlords themselves, and to reward equally liberally other labourers who soon leave them for the same reason that they left their first

master. The liberal reward of labour encourages marriage. The children, during the tender years of infancy, are well fed and properly taken care of; and when they are grown up the value of their labour much more than makes up for the cost of their maintenance. When arrived at maturity, the high price of labour and the low price of land enable them to establish themselves in the same way that their fathers did before them. [Then a further paragraph, mainly repeating this one.]

The progress of many of the ancient Greek colonies towards wealth and greatness seems accordingly to have been very rapid. In a century or two several of them appear to have rivalled and even surpassed their mother cities. Syracuse and Agrigentum in Sicily, Tarentum and Locri in Italy, Ephesus and Miletus in Lesser Asia appear by all accounts to have been at least equal to any of the cities of ancient Greece. All the arts of refinement, philosophy, poetry, and eloquence seem to have been improved as highly in them as in any part of the mother country, and to have been cultivated as early as they were in the mother cities, although these had been established for so much longer. The two oldest schools of Greek philosophy, those of Thales and Pythagoras, were established one in an Asiatic colony the other in an Italian one. All those colonies had established themselves in countries inhabited by savage and barbarous nations who easily gave place to the new settlers. They had plenty of good land; and as they were altogether independent of the mother city they were free to manage their own affairs in the way that they judged was most suitable to their own interests. [The Roman colonies did less well, Smith says, mainly because they were not independent.]

In the plenty of good land the European colonies established in America and the West Indies resemble, and even greatly surpass, those of ancient Greece. In their dependence



on the mother state they resemble those of ancient Rome; but their great distance from Europe has in all of them lessened the effects of this dependence. Their location has placed them less in the view of their mother country and less in its power. Their conduct in pursuing their interests in their own way has often been *overlooked* because it was not known or not understood in Europe; and sometimes it has been simply *put up with* because their distance made it difficult to restrain it. Even the violent and arbitrary government of Spain has often had to recall or soften the orders it had given for the government of her colonies, for fear of a general insurrection. The progress of all the European colonies in wealth, population, and improvement has accordingly been very great.

Through its share of the gold and silver, the crown of Spain derived some revenue from its colonies from the moment of their first establishment; and it was a revenue of a nature to arouse in human greed the most extravagant expectation of still greater riches. The Spanish colonies, therefore, attracted very much the attention of their mother country; while those of the other European nations were for a long time in a great measure neglected. The former did not thrive better because of this attention, nor did the latter fare worse because of this neglect. In proportion to the extent of the country that they in some measure possess, the Spanish colonies are considered as less populous and thriving than those of almost any other European nation; and yet even *their* progress in population and improvement has been very rapid and very great. [He gives figures for the population-growth of certain cities, and reports on the economic improvements brought by the colonists. If the Europeans had not arrived and settled, he says,] it seems impossible that either of Peru or Mexico could have been as much improved or as well cultivated as at present, when

they are plentifully provided with all sorts of European cattle [see Glossary], and when the use of iron, of the plough, and of many of the arts of Europe have been introduced among them. But the populousness of every country must be in proportion to the degree of its improvement and cultivation. In spite of the cruel destruction of the natives that followed the conquest, these two large empires are probably more populous now than they ever were before; and the people are surely very different; for I think we must acknowledge that the Spanish creoles are in many respects superior to the former Indians.

[Now about five pages of history of the various European settlements in North America, their varying relationships to their mother countries, and consequent variations in how productive they have been.]

There are no colonies of which the progress has been more rapid than that of the English in North America.

The two great causes of the prosperity of all new colonies seem to be •the plenty of good land and •the liberty to manage their own affairs their own way.

In the plenty of good land the English colonies of North America, though no doubt very abundantly provided, are inferior to those of the Spaniards and Portuguese, and no better than some of those possessed by the French before the recent war. But the political institutions of the English colonies have been more favourable to the improvement and cultivation of this land than those of the other three colonising nations. There have been four aspects to this.

(1) Taking possession of uncultivated land, though not prevented altogether, has been more restrained in the English colonies than in any others. The colony law that •obliges every proprietor to improve and cultivate a certain proportion of his lands within a limited time, and that •declares that if he fails in this those neglected lands can be

granted to any other person, has had some effect although it has not perhaps been very strictly enforced.

(2) In Pennsylvania there is no right of primogeniture, and lands are divided equally among all the children of the family. [Division is less easy in other English colonies, Smith explains, but still easier than in most of the other European colonies, of whose situation he gives a highly technical account. He goes on to remind us of why this is important to affluence.] The plenty and cheapness of good land (I repeat) are the principal causes of the rapid prosperity of new colonies. Taking possession of very large stretches of land by the engrossing of land has the effect of destroying this plenty and cheapness, as well as being the greatest obstruction to its improvement; but the labour that is employed in the improving and cultivating land provides the greatest and most valuable product to the society. . . . So the labour of the English colonies is likely to provide a greater and more valuable product than that of any of the other three nations.

(3) Because of the moderation of their taxes, the product of the English colonists' labour is not only •likely to be greater and more valuable but also •something of which they can keep a greater proportion for themselves, storing it and employing it in putting into motion a still greater quantity of labour. The English colonists have never contributed anything towards the defence of the mother country, or towards the support of its civil government. They themselves, on the other hand, have so far been defended almost entirely at the expense of the mother country; and the cost of fleets and armies is enormously greater than the necessary expense of civil government. The expense of their own civil government has always been very moderate. It has generally been confined to what was needed to pay adequate salaries to the governor, to the judges, and to some other officers of the

civic administration, and for maintaining a few of the most useful public works. [He gives details for individual colonies; then goes on to remark on how much more expensively that Spanish, Portuguese and French colonies conduct their civil governments and on how much more demanding the church is in each of them, especially the first two.]

·TINKERING WITH THE COMMERCE OF THE COLONIES·

(4) In the disposal of their surplus product the English colonies have been more favoured, and have been allowed a larger market, than those of any other European nation. Every European nation has tried to monopolize to itself the commerce of its colonies, prohibiting the ships of foreign nations from trading to them and prohibiting them from importing European goods from any foreign nation. But the manner in which this monopoly has been exercised in different nations has been very different.

[One form of it, Smith says, is giving the whole commerce of a colony to one company, which is enormously hurtful to the colony's development. It was adopted by several colonising countries, which eventually gave it up 'on account of its absurdity', though Portugal recently adopted it for two of the principal provinces of Brazil. Another was to rule that the entire commerce of a colony must pass through one port in the mother country, leading (Smith explains how) to the colonists' having to sell cheap and buy dear. Spain used to do this; Portugal started it recently in all its colonies except the two just mentioned, where it did something 'still worse'.]

Other nations leave the trade of their colonies free to all their subjects, who may carry it on from all the ports of the mother country, needing no other license than the common despatches of the custom-house. In this case the number and geographical dispersal of the traders makes it impossible for them to enter into any general combination,

and competition is sufficient to stop them from making exorbitant profits. Under such a liberal policy the colonies can sell their own product—and buy the goods of Europe—at reasonable prices. Since the dissolution of the Plymouth company, when our colonies were in their infancy, this has been the policy of England. It has *generally* been France's also, and has been *uniformly* so since the dissolution of their so-called 'Mississippi company'. The profits of the trade that France and England carry on with their colonies, though no doubt somewhat higher than if the competition were free to all other nations, are by no means exorbitant; and thus the price of European goods is not extravagantly high through most of the past of the French and English colonies.

In the export of their own surplus product, the colonies of Great Britain are confined to the market of the mother country only for certain commodities. These having been enumerated in the act of navigation and in some other acts have been called 'enumerated commodities'. The rest are called 'non-enumerated', and may be exported directly to other countries, provided it is in British or plantation ships of which the owners and three quarters of the mariners are British subjects.

[Smith now devotes about four pages to details concerning what items have been enumerated and what have not, and to the motivations and effects of such proceedings. One notable sentence in this passage: 'Rum is a very important article in the trade which the Americans carry on to the coast of Africa, from which they bring back negro slaves in return.']

The most perfect freedom of trade—in enumerated and non-enumerated commodities—is permitted between the British colonies of America and the West Indies. Those colonies have become so populous and thriving that each of them finds in some of the others a great and extensive market for every part of its product. All together they make

a great internal market for one another's product.

But England's liberality towards the trade of her colonies has been confined chiefly to what concerns the market for their product, either in its rude state or in what may be called the very first stage of manufacture. The merchants and manufacturers of Great Britain choose to reserve to themselves the more advanced or more refined manufactures, even of colony product, and have prevailed on the legislature to prevent their establishment in the colonies, by high duties or absolute prohibitions. [He gives examples: refined (but not raw) sugar, steel (but not pig iron), manufactured woollen goods. Then:]

To prohibit a great people from making all that they can of every part of their own product, or from employing their stock and industry in the way that they judge most advantageous to themselves, is a manifest violation of the most sacred rights of mankind. Still, unjust as such prohibitions may be, they have so far not been very hurtful to the colonies. Among them land is still so cheap—and thus labour so dear—that they can import from the mother country almost all the more refined or advanced manufactures cheaper than they could make them for themselves. So even if they had not been prohibited from establishing such manufactures, their own interests would probably have stopped them doing so. In their present state of improvement, those prohibitions have no effect on their industry and are merely impertinent badges of slavery imposed on them, with no sufficient reason, by the groundless jealousy of mother country's merchants and manufacturers. In a more advanced state they might be really oppressive and intolerable.

In compensation for confining to her own market some of the colonies' most important productions, Great Britain gives to some of them an advantage in that market, by imposing higher duties on similar productions when imported from

other countries (sugar, tobacco, iron) or by giving bounties on their import from the colonies (hemp and flax, indigo, naval stores, building timber). . . .

With regard to the import of goods from Europe, England has likewise dealt more liberally with her colonies than any other nation. [He gives two paragraphs of details.]

The principal advisers for most of the regulations concerning the colony trade have been the merchants who conduct it. So it is not a surprise that in most of them the merchants' interests have been more considered than the interests of the colonies or the mother country. [He gives some details about this, and goes to describe a way in which the colonies' interests have clashed with those of the mother country, ending with this:] The progress of the linen manufacture of Great Britain, it is commonly said, has been a good deal retarded by the drawbacks on the re-export of German linen to the American colonies.

But though Great Britain's policy regarding the trade of her colonies has been dictated by the same mercantile spirit as that of other nations, it has on the whole been less illiberal and oppressive than that of any of them.

The English colonists are completely free to manage their own affairs their own way, except their foreign trade. Their liberty is in every respect equal to that of their fellow-citizens at home, and is secured in the same way, namely by an assembly of the representatives of the people, who claim the sole right of imposing taxes for the support of the colony's government. The authority of this assembly overawes the executive power; and neither the meanest nor the most obnoxious colonist—as long as he obeys the law—has anything to fear from the resentment of the governor or of any other civil or military officer in the province. The colonial assemblies are not always a very equal representation of the people, but they come nearer to being such than does the

house of commons in England; and because the executive power has not the means to corrupt them, or has no need to do so (because of the support it receives from the mother country), they are perhaps in general more influenced by the inclinations of their constituents. In the colony legislatures the councils correspond to the house of lords in Great Britain, but are not composed of a hereditary nobility. In some of the colonies—e.g. three of the governments of New England—those councils are not appointed by the king but chosen by the representatives of the people. In none of the English colonies is there any hereditary nobility. In all of them the descendant of an old colony family is of course more respected than an upstart of equal merit and fortune; but he is only more *respected*—he has no privileges by which he can be troublesome to his neighbours. Before the start of the present disturbances, the colony assemblies had not only the legislative but a part of the executive power. In Connecticut and Rhode Island they elected the governor. In the other colonies they appointed the revenue officers, who collected the taxes imposed by the assemblies, to which those officers were immediately responsible. So there is more equality among the English colonists than among the inhabitants of the mother country. Their manners are more republican; and their governments, those of three of the provinces of New England in particular, have hitherto been more republican too.

In contrast with this, colonies of Spain, Portugal, and France are subject to the absolute governments of the mother countries; and the discretionary powers that such governments commonly delegate to all their subordinate officers are exercised there with more than ordinary violence because of the colonies' great distance from the mother countries. Under any absolute government there is more liberty in the capital than in any other part of the country. The sovereign himself

can never have any reason or inclination to pervert the order of justice or oppress the great body of the people. In the capital, his presence somewhat overawes all his subordinate officers; whereas in the remoter provinces, from which the complaints of the people are less likely to reach him, those officers can exercise their tyranny with much more safety. And the European colonies in America are more remote than the most distant provinces of the largest empires that had ever been known before. The government of the English colonies may be the only one in the history of the world that could give perfect security to the inhabitants of such a very distant province. The administration of the French colonies has however always been conducted with much more gentleness and moderation than that of the Spanish and Portuguese. This superiority of conduct is suitable both to •the character of the French nation and to •the nature of their government (which forms the character of any nation). The French government, though arbitrary [see Glossary] and violent in comparison with that of Great Britain, is legal and free in comparison with those of Spain and Portugal.

•SLAVERY•

[In the middle of a dispensable discussion comparing the French colonies with the English ones in respect of the economics of sugar, Smith says some notable things about of slavery.] In all European colonies, the culture of the sugar-cane is carried on by negro slaves. The constitution of those who have been born in the temperate climate of Europe could not, it is thought, support the labour of digging the ground under the burning sun of the West Indies; and the culture of the sugar-cane today is all hand labour, though many people think that the drill plough might be introduced into it with great advantage. But just as the profit and success of the cultivation that is carried on by means of

cattle [see Glossary] depend on the good management of those cattle, so also the profit and success of that which is carried on by slaves must depend equally on the good management of those slaves; and I think it is generally allowed that in the good management of their slaves the French planters are superior to the English. Insofar as the law gives some weak protection to the slave against the violence of his master, it is likely to be better enforced in a colony where the government is largely arbitrary than in one where it is altogether free. In every country where the unfortunate law of slavery is established, the magistrate in protecting the slave is interfering in the management of the private property of the master; and in a free country—where the master may be a member of the colony assembly or an elector of such a member—he dares not do this except with the greatest caution and circumspection. The respect he is obliged to pay to the master makes it harder for him to protect the slave. But in a country where the government is in a great measure arbitrary, where it is usual for the magistrate to interfere even in the management of the private property of individuals—and perhaps to send them a *lettre de cachet* [a legal document that could lead to imprisonment without trial], if they do not manage it according to his liking—it is much easier for him to give some protection to the slave; and common humanity naturally disposes him to do so. The protection of the magistrate makes the slave less negligible in the eyes of his master, who is thereby induced to consider him with more regard and treat him with more gentleness. Gentle usage makes the slave more faithful and more intelligent, and therefore doubly more useful. He comes closer to the condition of a free servant, and may possess some degree of integrity and attachment to his master's interest—virtues that free servants often have but that a slave will never have if he is treated as slaves commonly are in countries where

the master is perfectly free and secure.

The history of all ages and nations shows, I think, that the condition of a slave is better under an arbitrary government than under a free one. In Roman history the first time we read of the magistrate interposing to protect the slave from the violence of his master is under the emperors. When Vidius Pollio, in the presence of Augustus, ordered one of his slaves, who had committed a slight fault, to be cut into pieces and thrown into his fish-pond, the emperor indignantly commanded him to emancipate immediately all his slaves, including that one. Under the republic no magistrate could have had authority enough to protect the slave, much less to punish the master.

Such have been the general outlines of the policy of the European nations with regard to their colonies. The policy of Europe, therefore, has very little to boast of, either in the original establishment or—so far as their internal government is concerned—in the subsequent prosperity of the colonies of America.

Folly and injustice seem to have been the principles [see Glossary] that drove the first project of establishing those colonies: the folly of hunting after gold and silver mines, and the injustice of coveting the possession of a country whose harmless natives, far from having ever injured the people of Europe, had received the first adventurers with every mark of kindness and hospitality.

The adventurers who formed some of the latter establishments had, along with the chimerical project of finding gold and silver mines, other motives more reasonable and more laudable; but even these motives do very little honour to the policy of Europe.

The English puritans, restrained at home, fled for freedom to America and established there the four governments of New England. The English catholics, treated with much

greater injustice, established that of Maryland; the quakers, that of Pennsylvania. The Portuguese Jews—persecuted by the inquisition, stripped of their fortunes, and banished to Brazil—introduced by their example some sort of order and industry among the transported felons and strumpets by whom that colony was originally peopled, and taught them how to grow the sugar-cane. In all these cases, what populated and cultivated America was European governments' disorder and injustice, not their wisdom and policy.

[After adding with some details that the founding of these colonies was mostly the work of private enterprise or of the governments of other colonies, owing very little to any governments in Europe, Smith concludes:]

In what way, therefore, has the policy of Europe contributed either to the first establishment, or to the present grandeur of the colonies of America? In one *and only one* way it has contributed a good deal: it bred and formed the men who were capable of achieving such great actions, and of laying the foundation of such a great empire; no other place in the world has ever •formed such men or •had a policy that *could* form them. The colonies owe to the policy of Europe the education and great views of their active and enterprising founders; and some of the largest and most important of them, so far as concerns their internal government, owe it hardly anything else.

### **Part 3. Europe's advantages from the discovery of America and of a route to the East Indies around Africa**

Such are the advantages which the colonies of America have derived from the policy of Europe. What advantages has Europe derived from the discovery and colonisation of America?

Those advantages can be divided into

**(1)** the general advantages that Europe, considered as one large country, has derived from those great events, and

**(2)** the particular advantages that each colonising country has derived from *its* colonies because of the authority or dominion that it exercises over them.

**(1)** The general advantages that Europe as a whole has derived from the discovery and colonisation of America consist in **(a)** the increase of its enjoyments and **(b)** the increase of its industry.

**(1a)** The surplus product of America imported into Europe provides the inhabitants of this great continent various commodities that they could not otherwise have possessed—for convenience and use, for pleasure, or for ornament—thereby increasing their enjoyments.

**(1b)** Everyone agrees that the discovery and colonisation of America have contributed to increase the industry of •all the countries that trade with it directly (e.g. Spain, Portugal, France, and England), and of •all those that trade with it indirectly, through the medium of . . .the countries mentioned above. All such countries have obviously gained a larger market for their surplus product, and must consequently have been encouraged to increase its quantity.

It may be less obvious that those great events should likewise have encouraged the industry of countries such as Hungary and Poland, which may never have sent a single commodity of their own product to America; but it is certainly the case. Some of the product of America is consumed in Hungary and Poland, . . .and it must be purchased with something that either •is the product of the industry of Hungary and Poland or •was purchased with some part of that product. Thus the influx of commodities from America—many of which are new to Hungary and Poland—create a new and larger market for those countries' surplus product. They

raise its value, and thereby encourage its increase. Though no part of it may ever be carried to America, it may be carried to other countries that purchase it with a part of their share of the surplus product of America, and it may find a market by means of the circulation of the trade that was originally put into motion by the surplus product of America.

Those great events may even have increased the enjoyments and increased the industry of countries that never sent any commodities to America *and* never received any from it. [Smith's account of how this happens can easily be inferred from the preceding paragraph.]

The exclusive trade of the mother countries tends to diminish—or at least to keep below what they would otherwise have been—the enjoyments and the industry of all the European nations and especially of the American colonies in particular. It is a dead weight on the action of one of the great springs that drives a great part of the business of mankind. By making the colony's product dearer in all other countries, it lessens its consumption and thereby cramps the colony's industry and the enjoyments and the industry of all other countries, which •enjoy less when they pay more for what they enjoy, and •produce less when they get less for what they produce. . . . It is a clog which, for the supposed benefit of some particular countries, embarrasses the pleasures and encumbers the industry of all other countries, but of the colonies more than of any other. . . .

**(2)** The advantages that each colonising country derives from its own colonies are of two kinds: **(a)** the common advantages that every empire derives from the provinces under its dominion, and **(b)** the particular advantages that are supposed to result from provinces of such a special kind as the European colonies of America.

**(2a)** The common advantages that every empire derives from the provinces under its dominion consist in •the military

force they provide for its defence and •the revenue they provide for the support of its civil government. The Roman colonies provided each of these from time to time. The Greek colonies sometimes provided a military force, but seldom any revenue. . . . They were generally the mother city's allies in war, but seldom her subjects in peace.

The European colonies of America have never yet provided any **military force** for the defence of the mother country. Their military force has never yet been sufficient for their own defence; and in the wars the mother countries have been engaged in, the defence of the colonies has generally led to a considerable distraction of those countries' military forces. In this respect, therefore, *all* the European colonies have been causes of weakness rather than of strength to their respective mother countries.

The colonies of Spain and Portugal are the only ones to have contributed any **revenue** towards the defence of the mother country or the support of her civil government. The taxes levied on the colonies of other European nations—especially on those of England—have •seldom been equal to the expense laid out on them in time of peace, and •never sufficient to defray what they cost the mother country in time of war. So such colonies have been a source of expense, and not of revenue, to their respective mother countries.

**(2b)** The only advantages that such colonies give to their respective mother countries are the special ones that are supposed to result from provinces of such a special kind as the European colonies of America; and it is acknowledged that the sole source of all those special advantages is the exclusive trade.

Because of this exclusive trade, all the surplus product of the English colonies (for example) that consists in 'enumerated commodities' [see page 177] can be sent only to England. Other countries must afterwards buy it from her.

So it must be cheaper in England than in any other country, and must contribute more to increase England's enjoyments than any other country's. It must likewise contribute more to encourage her industry; because for all those parts of her own surplus product that England exchanges for those enumerated commodities she must get a better price than any other countries can get for similar parts of theirs when they exchange them for the same commodities. . . . So the exclusive trade of the colonies, in keeping down the enjoyments and the industry of the countries that do not possess it, gives an evident advantage to the countries that do possess it over those other countries.

But this advantage may be found to be a *relative* rather than an *absolute* advantage, giving a superiority to the country that enjoys it by depressing the industry and product of other countries rather than by raising those of that particular country above what they would naturally rise to in the case of a free trade.

For example: the tobacco of Maryland and Virginia, because of England's monopoly of it, certainly comes cheaper to England than it can do to France to whom England commonly sells a considerable part of it. But if France and other European countries been allowed a free trade to Maryland and Virginia, the tobacco of those colonies might by now have come cheaper than it actually does, to England as well as to those other countries. [He explains that the larger market would have led to increased production and thus to lower prices all around.] Thus, so far as that weed [Smith's word] can by its cheapness and abundance increase the enjoyments or the industry of England or any other country, it would probably, in the case of a free trade, have produced these effects in a greater degree than it can do at present. England would not have had any advantage over other countries. . . . She might have gained an absolute



advantage, but she would certainly have lost a relative one.

In order to obtain this relative advantage in the colony trade—in order to execute the invidious and malignant project of excluding other nations from any share in it—England has probably not only •sacrificed some of the absolute advantage that she and every other nation might have derived from that trade but has also •subjected herself to an absolute and a relative disadvantage in almost every other branch of trade.

When by the act of navigation [see page 151] England helped herself to the monopoly of the colony trade, the foreign capital that had previously been employed in it had to be withdrawn. The English capital that had previously conducted only a part of it was now supposed to conduct it all: the capital that had been supplying the colonies with only a part of the goods they wanted from Europe was now suppose to supply them with the whole. But it *could not* supply them with the whole; and the goods it did supply them with were necessarily **sold very dear**. The capital that had previously bought only a part of the surplus product of the colonies was now all that was employed to buy the whole. But it *could not* buy the whole at anywhere near the old price; and therefore whatever it did buy it necessarily **bought very cheap**. But in an employment of capital in which the merchant sold dear and bought cheap, the profit must have been very great, and much above the ordinary level of profit in other branches of trade. This superiority of profit in the colony trade was bound to attract from other branches of trade some of the capital that had previously been employed in them. . . .

\* \* \* \* \*

[Smith goes on for about thirty pages, arguing in detail that monopolies of the colonial trade have been harmful to the mother countries and to their colonies, and more generally

that the handling of colonies by their mother countries has been profoundly and obstinately stupid. All that will be presented here of this material—which some printed-paper editions omit entirely—are a few notable episodes. ]

\* \* \* \* \*

. . . .Our manufactures for foreign sale, instead of being suited (as they were before the act of navigation) to the neighbouring market of Europe or the more distant one of countries around the Mediterranean sea, have mostly been accommodated to the still more distant one of the colonies; to the market in which they have the monopoly, rather than to that in which they have many competitors. The decline in other branches of foreign trade, which various writers have attributed to the excess and improper mode of taxation, the high price of labour, the increase of luxury, etc., has been caused purely by the overgrowth of the colony trade. . . .

. . . .This monopoly has necessarily contributed to keeping the rate of profit in all branches of British trade higher than it naturally would have been if all nations had been allowed a free trade to the British colonies. . . .

. . . .Our merchants often complain that the high wages of British labour cause their manufactures to be undersold in foreign markets; but they are silent about the high profits of stock. Complaining of other people's extravagant gain, they say nothing of their own. The high profits of British stock may contribute as much as the high wages of British labour do towards raising the price of British manufactures—and in some perhaps even more. . . .

. . . .British capital has partly been **drawn** from most branches of trade by the attraction of superior profit in the colony trade. . . . And it has partly been **driven** from them by the advantage that the high rate of profit established in

Great Britain gives to other countries in all the branches of trade of which Great Britain has not the monopoly. . . .

. . . The monopoly of the colony trade, by forcing towards it a much greater proportion of the capital of Great Britain than would naturally have gone to it, seems to have *broken* the natural balance that would otherwise have held among all the branches of British industry. Instead of being accommodated to many small markets, Great Britain's industry has been principally suited to one great market. Instead of running in many small channels, her commerce has been taught to run principally in one large channel. . . . Great Britain now resembles one of those unwholesome bodies in which some of the vital parts are overgrown, making them liable to many dangerous disorders that are unlikely in bodies in which all the parts are more properly proportioned. . . . [He gives an example: English terror—'more terror than they ever felt for a Spanish armada or a French invasion'—at the prospect of a break with the colonies.]

[After remarks about the troubles of Spain and Portugal:] In England, on the other hand, the natural good effects of the colony trade, helped by other causes, have largely conquered the bad effects of the monopoly. These causes seem to be:

- the general liberty of trade, which (despite some restraints) is at least equal to what it is in any other country;
- the liberty of exporting, duty free, almost all sorts of product of domestic industry to almost any foreign country;
- the unbounded liberty of transporting goods within our own country without having to give any account to any public office; and above all
- the equal and impartial administration of justice that makes the greatest British subject respect the rights of the meanest [see Glossary], and gives the greatest

and most effectual encouragement to every sort of industry by securing to every man the fruits of his own industry.

The manufactures of Great Britain have been advanced by the colony trade, but this has not been •by means of the monopoly of that trade but •in spite of it. The effect of the monopoly has been not to increase the quantity of the manufactures of Great Britain but to alter their quality and shape, adjusting them to fit a market from which the returns are slow and distant when they would otherwise have been shaped for a market from which the returns are frequent and near. . . .

By raising the rate of mercantile profit, the monopoly discourages the improvement of land. The profit of improvement depends on the difference between •what the land actually produces and what it can be made to produce by a certain application of capital. If this difference provides more profit than can be drawn from an equal amount of capital in any mercantile employment, the improvement of land will draw capital from all mercantile employments; if the profit is less, capital will flow the other way. [He goes on to explain that the increase in mercantile profit, though good for the merchant, is bad for the improvement of land and thus bad for the country.]

. . . The high rate of profit seems everywhere to have a further bad effect, namely destroying the •parsimony which in other circumstances is natural to the character of the merchant. When profits are high, the merchant sees •that sober virtue as superfluous and sees expensive luxury as better suited to the affluence of his situation. . . . And this sets a bad example. If his employer is attentive and parsimonious, the workman is likely to be so too; but if the master is dissolute and disorderly, the servant. . . . will shape his own life according to the example he sets him. . . .

The capital of the country gradually dwindles away, and the quantity of productive labour maintained in it grows less every day. [He cites the harm done to Spain and Portugal, 'those two beggarly countries' by 'the galling bands of their absurd monopoly'.]

To found a great empire for the sole purpose of raising up a people of customers may at first sight seem to be a project fit only for a nation of shopkeepers. Actually, it is a project altogether unfit for a nation of shopkeepers but extremely fit for a nation whose government is influenced by shopkeepers! Only statesmen influenced in that way could fancy that they will find some advantage in employing the blood and treasure of their fellow-citizens to found and maintain such an empire [i.e. an empire of customers]. Say to a shopkeeper 'Buy me a good estate, and I'll always buy my clothes at your shop, even if they are somewhat dearer than at other shops' and you will not find him very eager to embrace your proposal. But if someone bought you an estate, the shopkeeper would be much obliged to your benefactor if he urged you to buy all your clothes at his shop. England purchased for some of her subjects who found themselves uneasy at home a great estate in a distant country. The price was very small: instead of thirty years' purchase, the ordinary price of land in the present times, it amounted to little more than the expense of the various equipments that made the first discovery, reconnoitred the coast, and took a fictitious possession of the country. The land was good and very large; and the cultivators—having plenty of good ground to work on, and being for some time free to sell their product where they pleased—became (between 1620 and 1660) so numerous and thriving a people that the shopkeepers and other traders of England wanted to get for themselves the monopoly of their custom. So, without claiming to have paid any part of the original purchase money or the subsequent expense

of improvement, they petitioned the parliament that the cultivators in America might for the future be confined to their shop; first, for buying all the goods they wanted from Europe; and, secondly, for selling such of their product as those traders find it convenient to buy. They did not find it convenient to buy every part of it. Some parts of it if imported into England would have interfered with some of the trades which they themselves carried on at home. So they were willing for the colonists to sell those parts wherever they could, the further off the better; and on that account proposed that their market should be confined to the countries south of Cape Finisterre [= Spain and countries south of it]. A clause in the famous act of navigation established this truly shopkeeper proposal into a law.

The maintenance of this monopoly has been the principal or perhaps the only purpose of the dominion that Great Britain assumes over her colonies. In the exclusive trade, it is supposed, consists the great advantage of provinces, which have never yet provided either revenue or military force for the support of the civil government or the defence of the mother country. The monopoly is the principal badge of their dependence, and it is the sole fruit which has been gathered from that dependence. Whatever expense Great Britain has laid out in maintaining this dependence has really been laid out in order to support this monopoly. [He goes into details about the costs to Great Britain of the 'peace establishment' of North America, preventing or quelling 'colony quarrels', and concludes:] Under the present system of management, therefore, Great Britain derives nothing but loss from the dominion she assumes over her colonies.

[There is no chance, Smith says, that any country would voluntarily relinquish its colonies, because this would be 'mortifying to the country's pride' and contrary to the interests of various office-holders who get 'wealth and distinction'

from their roles in relation to the colonies. He writes about the enormous benefits that Great Britain and the American colonies would get from parting on good terms.]

[Smith discusses at great length the question of how colonies should be taxed, and builds into that discussion the idea that the colonies might send representatives to the British house of commons. If this were to happen, he says, it would present] a new and more dazzling object of ambition to the leading men of each colony. Instead of piddling for the little prizes that are to be found in the paltry raffle of colony faction they could hope—from the presumption that men naturally have in their own ability and good fortune—to draw some of the great prizes that sometimes come from the wheel of the great state lottery of British politics. . . .

The discovery of America, and that of a passage to the East Indies by the Cape of Good Hope, are the two greatest and most important events recorded in the history of mankind. . . . At the time when these discoveries were made, the Europeans' superiority of force was so great that they could commit with impunity every sort of injustice in those remote countries. In time the natives of those countries may grow stronger, or those of Europe weaker, and then the inhabitants of all quarters of the world may arrive at the equality of courage and force which, by inspiring mutual fear, is the only thing that can overawe the injustice of independent nations into some sort of respect for one another's rights. And nothing seems more likely to establish this equality of force than the mutual communication of knowledge and of all sorts of improvements that an extensive commerce from all countries to all countries is bound to carry along with it.

## Chapter 8: Concluding discussion of the mercantile system

Though the encouragement of export, and the discouragement of import, are the two great engines by which the mercantile system proposes to enrich every country, with regard to some commodities it seems to follow an opposite plan: to discourage export and encourage import. But it claims that its ultimate object is always the same, to enrich the country by an advantageous 'balance of trade'. It discourages the export of the materials of manufacture and instruments of trade in order to give our own workmen an advantage, enabling them to undersell those of other nations in all foreign markets; and by restraining in this way the export of a few inexpensive commodities it proposes to cause a greater and more valuable export of others. It encourages the import of the **materials** of manufacture so that our own people may be enabled to work them up more cheaply, and thereby prevent a greater and more valuable import of the manufactured commodities. I cannot find in our statute book any encouragement for the import of the **instruments** of trade. When manufactures have reached a certain size, the *making* of the instruments of trade becomes the object of many important manufactures, and it would interfere too much with their interests if any particular encouragement were given to the import of such instruments. Thus, such import has often been prohibited. Thus the import of wool cards. . . . was prohibited under Edward IV; this prohibition was renewed under Elizabeth and has been continued and made perpetual by subsequent laws.

[Smith goes on at length and in detail regarding the devices that have been used to protect British manufacturers—prohibitions, bounties, duties, etc.—always at the expense of Great Britain as a whole. Much of this material will be

omitted here. A typically indignant sample of it is this:] By encouraging the import of foreign linen yarn, thereby bringing it into competition what our own people make, they try to buy the work of the poor spinners as cheap as possible. They are as intent on keeping down the wages of their own weavers as the earnings of the poor spinners; and it is *not* for the benefit of the workmen that they try to raise the price of the complete work or lower the price of the rude materials. It is the industry that is conducted for the benefit of the rich and the powerful that is principally encouraged by our mercantile system. That which is carried on for the benefit of the poor and the indigent is too often either neglected or oppressed. . . .

. . . .Our woollen manufacturers have been especially successful in persuading the legislature that the prosperity of the nation depended on the success and extension of their particular business. They have not only

- obtained a monopoly against the consumers, by an absolute prohibition of importing woollen cloths from any foreign country, but also
- obtained a monopoly against the sheep farmers by a similar prohibition of the export of live sheep and wool.

The severity of many of the laws which have been enacted for the security of the revenue is justly complained of, as imposing heavy penalties on actions that had always been understood to be innocent until the statutes declared them to be crimes. But I venture to say that the cruelest of our revenue laws are mild and gentle in comparison with some of those that the clamour of our merchants and manufacturers has extorted from the legislature for the support of their absurd and oppressive monopolies. Like the laws of Draco, these laws may be said to be all written in blood. [He goes into gruesome details, while reporting that the most ferocious

penalties may never have been inflicted, and that more recent laws have been milder, though still very severe. If someone exports something illegally, Smith says, the law ‘means to ruin him completely’.]

. . . .Our woollen manufacturers, in order to justify their demand of such extraordinary restrictions and regulations, confidently asserted that English wool was of a special quality, superior to that of any other country; that the wool of other countries could not be worked up into any tolerable manufacture without some mixture of English wool; that fine cloth could not be made without it; that therefore if the export of it could be totally prevented England could keep for herself almost the whole woollen trade of the world; and thus, having no rivals, could sell at what price she pleased and soon acquire the most incredible wealth by the most advantageous ‘balance of trade’. This doctrine, like most doctrines that are confidently asserted by a considerable number of people, was and still is implicitly believed by a much greater number—by almost all who are not acquainted with the woollen trade or who have not made particular inquiries. In fact, however, English wool is so far from being

- necessary for the making of fine cloth that it is altogether
- unfit for it. Fine cloth is made entirely from Spanish wool.

You cannot make it with a Spanish/English mixture without somewhat spoiling and degrading the fabric of the cloth.

To do any harm to the interests of one order of citizens simply to promote the interests of some other is obviously contrary to the justice and equality of treatment that the sovereign owes to *all* the orders of his subjects. The prohibition of the export of wool certainly does some harm to the interests of the growers of wool simply to promote the interests of the manufacturers.

Every order of citizens is bound to contribute to the support of the sovereign or commonwealth. A tax of 5/- or

even of 10/- on the export of every tod [= about 28lbs] of wool would provide a very considerable revenue for the sovereign. It would harm the interests of the growers somewhat less than the prohibition does, because it probably would not lower the price of wool quite so much. It would provide a sufficient advantage to the manufacturer: he might not buy his wool quite so cheap as under the prohibition, but he would still buy it at least 5/- or 10/- cheaper than any foreign manufacturer could buy it, besides saving the freight and insurance that the foreigner would have to pay. It is hardly possible to devise a tax that could produce considerable revenue for the sovereign while causing so little inconvenience to anybody.

Despite all the penalties that guard it, the prohibition does not prevent the export of wool. It is well known that wool is exported in great quantities. The great difference between the price at home and the price in the foreign market presents such a temptation to smuggling that all the rigour of the law cannot prevent it. This illegal export is advantageous to nobody but the smuggler. A legal export subject to a tax—providing revenue for the sovereign, and thereby saving the imposition of perhaps more burdensome and inconvenient taxes—could be advantageous to all the subjects of the state.

[Smith now has about five pages of details about the various taxes, prohibitions in import and/or export, monopolies etc. with which British law has protected the interests of various classes of manufacturers. The 'enumerated commodities' that figure in this recital include, fuller's earth, tanned leather, gum arabic, beaver skins, coal, and also 'instruments of trade' such as looms. Then:]

When such heavy penalties were imposed on the export of the dead instruments of trade, it could hardly be expected that the living instrument, the artificer, would be allowed

to go free. Accordingly, by a law of George I any person convicted of enticing any artificer in any of the manufactures of Great Britain to go abroad to practise or teach his trade is liable for the first offence to a fine not exceeding £100 and to three months imprisonment, and until the fine is paid; and for the second offence to a fine at the discretion of the court and to imprisonment for twelve months, and until the fine is paid. By a law of George II this penalty is increased, for the first offence to £500 for every artificer so enticed, and to twelve months imprisonment, and until the fine is paid; and for the second offence to £1,000 and to two years imprisonment, and until the fine is paid. [Then some details about the fierce penalties to which the enticed artificer himself is liable, whether he goes abroad to work at his trade or to teach it.]

The laudable motive of all these regulations is to extend our own manufactures, not by their own improvement but by depressing those of all our neighbours, and by putting an end, as far as possible, to the troublesome competition of such odious and disagreeable rivals. [In that sentence, 'laudable' = 'praiseworthy' is of course meant sarcastically.] Our master manufacturers think it reasonable that *they* should have the monopoly of the ingenuity of all their countrymen. They have in some trades restricted how many apprentices can be employed at one time, and have in all trades required a long apprenticeship; in doing this they have been trying to confine the knowledge of their respective employments to as small a number as possible; yet they are unwilling to let any part of this small number go abroad to instruct foreigners.

*The sole purpose of all production is consumption, and the interests of the producer ought to be attended to only so far as this may be necessary for promoting the interests of the consumer.* That maxim is so perfectly self-evident that it would be absurd to set about proving it. But in

the mercantile system the interests of the consumer are almost constantly sacrificed to those of the producer; and the system seems to think that the ultimate end and object of all industry and commerce is production, not consumption.

In the restraints on the import of all foreign commodities that can compete with those of our own growth or manufacture, the interests of the home consumer are obviously sacrificed to those of the producer. It is altogether for the benefit of the producer that the consumer is obliged to pay the higher price that this monopoly almost always causes.

It is solely for the benefit of the producer that bounties are granted on the export of some of his productions. The home consumer has to pay •the tax that is necessary for paying the bounty and •the even greater tax that necessarily arises from the rise in the price of the commodity in the home market.

In the system of laws established for the management of our American and West Indian colonies, the home consumer's interests have been sacrificed to the producer's with an even more extravagant profusion than in all our other commercial regulations. A great empire has been established purely so as to raise up a nation of customers who would be obliged to buy from the shops of our producers all the goods they could supply them with. For the sake of that little price-rise that this monopoly might provide our producers, the home consumers have been burdened with the whole expense of maintaining and defending that empire. For this purpose, and *only* for this purpose, in the two last wars more than £200,000,000 have been spent, and a new debt of more than £170,000,000 has been contracted, over and above all that had been expended for the same purpose in former wars. The interest on this debt alone is greater than. . . .the whole value of the colony trade. . . .

### **Chapter 9: Agricultural systems of political economy, according to which the sole source of a country's wealth is the product of its land**

The agricultural systems of political economy will not require as long an explanation as the one I thought I needed to give for the mercantile = commercial system. The system that represents the product of a country's land as the sole source of its revenue and wealth has, so far as I know, never been adopted by any nation, and today exists only in the speculations of a few men of great learning and ingenuity in France. It surely would not be worthwhile to examine at great length the errors of a system that never has and probably never will do harm in any part of the world. I shall try to explain as clearly as I can, the broad outlines of this very ingenious system.

[This economic 'system' is widely regarded as the first serious attempt at theoretical economics, Smith's being the second. Its founder was François Quesnay, whom Smith will discuss.]

M. Colbert, the famous minister of Louis XIV,. . . .had abilities in every way fitted for introducing method and good order into collecting and spending the public revenue. Unfortunately he embraced all the prejudices of the mercantile system, which is essentially a system of restraint and regulation of a kind that could hardly fail to be agreeable to a laborious and plodding man of business who was accustomed to regulating the different departments of public offices, and establishing the necessary checks and controls for confining each to its proper sphere. He tried to regulate the industry and commerce of a large country on the same model as the departments of a public office; and instead of allowing every man to pursue his own interests in his own way—on the liberal plan of equality, liberty, and justice—he bestowed extraordinary privileges on certain branches of

industry while putting others under equally extraordinary restraints. Not only was he, like other European ministers, disposed to encourage the industry of the towns more than that of the country; but he was willing to support the industry [see Glossary] of the towns by keeping down the industry of the country. In order to make provisions cheap for the inhabitants of the towns, thereby encouraging manufactures and foreign commerce, he *prohibited* the export of corn, thus excluding the inhabitants of the country from every foreign market for the most important part of the product of their industry. This prohibition, combined with

- the restraints imposed by the old provincial laws of France on the transportation of corn from one province to another, and
- the arbitrary and degrading taxes that are levied on the cultivators in almost all the provinces,

discouraged France's agriculture and kept it down very much below the state it would naturally have risen to with such fertile soil and such a happy climate. This state of discouragement and depression was felt somewhat in every part of the country, and many inquiries were embarked on concerning the causes of it. One of those causes seemed to be the preference that M. Colbert's institutions gave to the industry of the towns above that of the country.

If the rod is bent too much one way, says the proverb, to make it straight you must bend it as much the other way. The French philosophers who have proposed the system that represents agriculture as the sole source of the revenue and wealth of every country, seem to have adopted this proverbial maxim. Just as in the plan of M. Colbert the industry of the towns was certainly overvalued in comparison with that of the country, so in their system it seems to be as certainly under-valued.

·WHAT THE AGRICULTURAL SYSTEM SAYS·

They divide the different orders of people who have ever been supposed to contribute towards the annual product of the country's land and labour into three classes:

- (1) the proprietors of land,
- (2) the cultivators, farmers and country labourers, whom they honour with the special label 'the productive class', and
- (3) the class of artificers, manufacturers, and merchants, whom they try to degrade by the humiliating label 'the barren or unproductive class'.

(1) The class of proprietors contributes to the annual product by the expense they occasionally lay out on the improvement of the land, and on the buildings, drains, enclosures and other improvements that they make or maintain on it. By means of this the cultivators can with the same amount of capital raise more and consequently pay a greater rent. This advanced rent can be considered as the interest or profit due to the proprietor on the expense or capital that he employs in improving his land. Such expenses are in this system called 'ground expenses' (*dépenses foncières*).

(2) The cultivators or farmers contribute to the annual product by what this system calls the 'original expenses' and 'annual expenses' (*dépenses primitives* and *dépenses annuelles*) that they lay out on the cultivation of the land. The original expenses consist in the instruments of husbandry, the stock of cattle, the seed, and the maintenance of the farmer's family, servants, and cattle during at least a great part of the first year of his occupancy, or until he can get some return from the land. The annual expenses consist in the seed, the wear and tear of instruments of husbandry, and the annual maintenance of the farmer's servants and cattle, and of his family too so far as any them can be considered as servants employed in cultivation. That



part of the land's product that remains to him after paying the rent ought to be sufficient to replace for him

- within a reasonable time, at least during the term of his occupancy, the whole of his **original** expenses together with the ordinary profits of stock; and
- annually the whole of his **annual** expenses, also together with the ordinary profits of stock.

Those two sorts of expenses are two lots of capital that the farmer employs in cultivation; and unless they are regularly restored to him together with a reasonable profit he cannot carry on his employment on a level with other employments. From a regard to his own interests he must desert farming as soon as possible and seek some other employment for his capital. The part of the product of the land that is thus necessary for enabling the farmer to continue his business ought to be considered as a fund dedicated to cultivation: if the landlord violates it he necessarily reduces the product of his own land and before long disables the farmer from paying this extortionate rent or even paying the reasonable rent that the landlord might otherwise have got for his land. The rent that *properly* belongs to the landlord is no more than the land's *net product*, i.e. what remains after paying *all* the expenses of raising the whole product. Because the labour of the cultivators (over and above paying all those necessary expenses) provides a net product of this kind, this class of people are in this agricultural system marked off by the honourable label 'the productive class'. And because their original and annual expenses (over and above replacing their own value) generate the annual reproduction of this net product, this system calls them 'productive expenses'.

The so-called ground expenses—i.e. what the landlord spends on improving his land—are in this system honoured with the label 'productive expenses'. Until the whole of those expenses together with the ordinary profits of stock have

been completely repaid to him by the advanced rent that he gets from his land, that advanced rent ought to be regarded as sacred and inviolable

- by the church; otherwise by discouraging the improvement of land it discourages the future increase of its own tithes; and
- by the king; otherwise by discouraging the improvement of land he discourages the future increase of his own taxes. . . .

The agricultural system considers only three sorts of expenses as 'productive': the ground expenses of the landlord and the original and the annual expenses of the farmer. All other expenses, and all other orders of people—even those who would ordinarily be thought of as the most productive—are represented as altogether barren and unproductive.

(3) Artificers and manufacturers, whose industry would ordinarily be thought of as increasing so much the value of the rude product of the land, are in this system represented as an altogether barren and unproductive class of people. Their labour is said to replace only the stock that employs them together with its ordinary profits. That stock consists in the materials, tools, and wages advanced to them by their employer, and is the fund destined for their employment and maintenance. Its profits are the fund destined for the maintenance of their employer. In advancing to them the stock of materials, tools, and wages necessary for their employment, their employer is advancing to himself what is necessary for his own maintenance; and he generally proportions this maintenance to the profit he expects to make by the price of their work. If its price does not cover the maintenance he advances to himself, as well as the materials, tools, and wages he advances to his workmen, it obviously does not repay him for the whole expense he lays out on it. So the profits of manufacturing stock are

not—as the rent of land is—a net product that remains after completely repaying the whole expense that must be laid out in order to obtain them.

- The farmer's stock yields him a profit and also yields a rent to someone else; whereas
- the master manufacturer's stock yields him a profit but provides nothing for anyone else.

So the expense laid out in employing and maintaining artificers and manufacturers merely serves to continue the existence of its own value (so to speak), and does not produce any new value. It is therefore an altogether barren and unproductive expense. In contrast with this, the expense laid out in employing farmers and country labourers continues the existence of its own value and also produces a new value, namely the rent of the landlord. So it is a productive expense. . . .

The labour of artificers and manufacturers never adds anything to the value of the whole annual amount of the rude product of the land. It does add greatly to the value of some parts of it; but the consumption of other parts that this causes is precisely equal to the value it adds to those parts; so that the value of the whole amount is not at any one moment in the least increased by it. For example:

Someone who works the lace of a pair of fine ruffles may raise the value of a pennyworth of flax to £30 sterling. But though at first sight he appears thereby to multiply the value of a part of the rude product about 7,200 times, he really adds nothing to the value of the whole annual amount of the rude product. The working of that lace costs him (say) two years' labour. The £30 he gets for it when it is finished is no more than the repayment of the subsistence he advances to himself during those two years. The value he adds to the flax by every day's, month's, or year's labour

merely replaces the value of his own consumption during that day, month, or year. At no moment of time, therefore, does he add anything to the value of the whole annual amount of the rude product of the land. . . .

The extreme poverty of most of the persons employed in this expensive though trifling manufacture may satisfy us that the price of their work does not usually exceed the value of their subsistence. It is otherwise with the work of farmers and country labourers. The rent of the landlord is a value which, in ordinary cases, it is continually producing over and above replacing, in the most complete manner, the whole consumption, the whole expense laid out on the employment and maintenance both of the workmen and of their employer.

The only way for artificers, manufacturers, and merchants to increase the revenue and wealth of their society is by parsimony—or, as the agricultural-system theorists put it, by 'privation'—i.e. depriving themselves of a part of the funds destined for their own subsistence. They annually reproduce nothing but those funds. So unless they annually save some part of them, annually depriving themselves of the enjoyment of some part of them, the revenue and wealth of their society can never be even slightly increased by their industry. This is in contrast with farmers and country labourers, who can enjoy completely the whole funds destined for their own subsistence while also providing a net product and thereby increasing the revenue and wealth of their society. So nations like France or England which largely consist of proprietors and cultivators can be enriched by industry and enjoyment; whereas nations like Holland and Hamburg which are composed chiefly of merchants, artificers, and manufacturers, can grow rich only through parsimony and privation. Just as the interests of nations so differently circumstanced are very different, so also is the common

character of the people. In nations of the former kind, liberality, frankness, and good fellowship, naturally make a part of their common character; in the latter, narrowness, meanness, and a selfish disposition, averse to all social pleasure and enjoyment.

The unproductive class (merchants, artificers, and manufacturers) is maintained and employed entirely at the expense of the other two classes (proprietors and cultivators). They provide it both with the materials of its work and with the corn and cattle that it consumes while it is employed about that work. The proprietors and cultivators ultimately pay •the wages of all the workmen of the unproductive class and •the profits of all their employers. Strictly speaking, those workmen and their employers are the servants of the proprietors and cultivators; they work outdoors, unlike domestic servants who work inside; but servants of both kinds are equally maintained at the expense of the same masters. Their labour is equally unproductive. It adds nothing to the value of the sum total of the rude product of the land. Instead of increasing the value of that sum total, it is an expense that must be paid out of it.

The unproductive class, however, is *very* useful to the other two classes. Through the industry of merchants, artificers, and manufacturers, the proprietors and cultivators can purchase the •foreign goods and •manufactured product of their own country that they want, spending much less of the output of their own labour than they have to spend if they tried in an awkward and unskilful manner to import •the one or make •the other. By means of the unproductive class the cultivators are delivered from many cares that would otherwise distract their attention from the cultivation of land. The superiority of product that they can raise because of this undivided attention is fully sufficient to pay the whole expense that the maintenance and employment of the

unproductive class costs either the proprietors or themselves; and it means that the industry of merchants, artificers, and manufacturers contributes indirectly to increase the product of the land. . . .

It can never be in the interests of the proprietors and cultivators to restrain or to discourage the industry of merchants, artificers, and manufacturers. The more liberty this unproductive class enjoys, the greater will be the competition in all the trades that compose it, and the cheaper will the other two classes be supplied with foreign goods and the manufactured product of their own country.

It can never be in the interests of the unproductive class to oppress the other two classes. What maintains and employs the unproductive class is the land's surplus product, i.e. what remains after deducting the maintenance of the cultivators and of the proprietors. The greater this surplus, the greater must likewise be the maintenance and employment of the unproductive class. The establishment of perfect justice, perfect liberty, and perfect equality is the simple secret that most effectively secures the greatest prosperity for all three classes.

Some states such as Holland and Hamburg consist chiefly of this unproductive class; but they too are maintained and employed entirely at the expense of the proprietors and cultivators of land—only these are in some other country. . . .

But such mercantile states are *very* useful to the inhabitants of those other countries. They help to fill a very important void, supplying the place of the merchants, artificers, and manufacturers whom the inhabitants of those countries ought to find at home but don't find there because of some defect in their policy.

It can never be in the interests of those landed nations (if I may so call them) to discourage the industry of such mercantile states by imposing high duties on their trade or

on the commodities they provide. Such duties would make those commodities dearer and thus lower the real value of the surplus product of their own land with which those commodities are purchased. Such duties could only discourage •the increase of that surplus product and thus •the improvement and cultivation of their own land. The most effective way of raising the value of that surplus product—encouraging its increase and consequently the improvement and cultivation of their own land—would be to allow the most perfect freedom to the trade of all such mercantile nations.

This perfect freedom of trade would even be the most effective way for the landed nations eventually to have all the artificers, manufacturers, and merchants they needed—filling up that very important void in the best and most advantageous manner. [Then a page of details about how this would happen. Then:]

According to this liberal and generous system, therefore, the most advantageous way for a landed nation to raise up artificers, manufacturers, and merchants of its own is to grant the most perfect freedom of trade to the artificers, manufacturers, and merchants of all other nations. It thereby raises the value of the surplus product of its own land, whose continual increase gradually establishes a fund which is certain eventually to raise up all the artificers, manufacturers, and merchants that it needs.

When a landed nation goes the other way, oppressing by high duties or prohibitions the trade of foreign nations, it hurts its own interests in two ways. **(i)** By raising the price of all foreign goods and all sorts of manufactures, it necessarily lowers the real value of the surplus product of its own land with which it purchases those foreign goods and manufactures. **(ii)** By giving a sort of monopoly of the home market to its own merchants, artificers, and manufacturers, it raises the rate of mercantile and manufacturing profit as

compared with that of agricultural profit; and this •draws from agriculture a part of the capital that had previously been employed in it or •hinders from going to it a part of what would otherwise have gone to it. . . . Agriculture is thus made less advantageous, and trade and manufactures more advantageous, than they otherwise would be. . . .

Even if by this oppressive policy a landed nation could raise up artificers, manufacturers, and merchants of its own somewhat sooner than it could do by the freedom of trade (and it is far from certain that it would), it would raise them up *prematurely*, so to speak, i.e. before it was perfectly ripe for them. By too hastily raising up one kind of industry it would depress another more valuable kind. . . .

M. Quesnay, the ingenious and profound author of the agricultural system, presents some arithmetical formulas which represent how the land's annual product is distributed among the three classes above mentioned [•proprietors, •farmers, and •artificers/manufacturers/merchants], and how it is that the labour of the unproductive class does no more than replace the value of its own consumption without increasing the value of that sum total. The first of these formulas, to which he gives the honorific title 'the Economical Table', represents how he thinks this distribution occurs in a state of the most perfect liberty and (therefore) of the highest prosperity; in a state where the annual product provides the greatest possible net product, and where each class enjoys its proper share of the whole annual product. Some subsequent formulas represent how he thinks this distribution is made in different states of restraint and regulation—states in which the •proprietors or the •artificers etc. are more favoured than the •farmers, thus encroaching on the share that ought properly to belong to this productive class. Every such encroachment—every violation of the natural distribution that the most perfect liberty [see Glossary]

would establish—must, according to this system, necessarily lower year by year the value and sum total of the annual product, inevitably causing a gradual decline in the real wealth and revenue of the society; a decline whose speed depends on how greatly the natural distribution that perfect liberty would establish has been violated. Those subsequent formulas represent the different degrees of decline which, according to this system, correspond to the different degrees in which this natural distribution of things is violated.

·WHAT IS WRONG WITH THE AGRICULTURAL SYSTEM·

Some theorising physicians seem to have imagined that the health of the human body could be preserved only by a certain precise regimen of diet and exercise, with every tiny violation leading to some disease or disorder whose severity will be proportional to the degree of the violation. Actually, experience seems to show that the human body often preserve the most perfect state of health under a vast variety of regimens, including some that are generally believed to be far from perfectly wholesome. But the healthful state of the human body contains in itself some unknown principle [see Glossary] of preservation that can prevent or of correct many of the bad effects even of a very faulty regimen. M. Quesnay, who was himself a theorising physician, seems to have entertained a similar notion concerning the political body, imagining that it would prosper only under a certain precise regimen, the exact regimen of perfect liberty and perfect justice. He seems not to have considered that in the political body the natural effort that every man continually makes to better his own condition is a principle of preservation that can prevent and correct many of the bad effects of a political economy that is in some degree both unfair and oppressive. Such a political economy will somewhat retard the natural progress of a nation towards wealth and prosperity, but it

cannot stop it altogether, still less make it go backwards. If a nation could not prosper without the enjoyment of perfect liberty and perfect justice, no nation in the world could ever have prospered! Fortunately, in the political body the wisdom of nature has made ample provision for remedying many of the bad effects of man's folly and injustice, just as it has done in the natural body for remedying those of his sloth and intemperance.

The chief error of this system, however, seems to lie in its representing the class of artificers, manufacturers, and merchants as barren and unproductive. The following ·five· observations may serve to show how wrong this is.

(1) It is admitted that this class reproduces annually the value of its own annual consumption, and at least continues the existence of the stock or capital that maintains and employs it. This makes it very wrong to call it 'barren' or 'unproductive'. We would not call a marriage barren or unproductive if it produced only a son and a daughter to replace the father and mother, not increasing the number of the human species. . . . Just as a marriage providing three children is *more* productive than one that provides only two, so the labour of farmers and country labourers is *more* productive than that of merchants etc.; but this does not make the latter class barren or unproductive.

(2) So it seems quite wrong to consider artificers, manufacturers, and merchants in the same light as domestic servants. The labour of domestic servants does not continue the existence of the fund that maintains and employs them. Their maintenance and employment is altogether at the expense of their masters, and the work they do is not of a nature to repay that expense. Their work consists in services that usually perish in the very instant of their performance, and does not fix or realize itself in any vendible commodity that can replace the value of their wages and

maintenance. Whereas the labour of artificers, manufacturers, and merchants naturally does fix and realize itself in some such vendible commodity. That is why in chapter 3 I have classed artificers, manufacturers, and merchants among the productive labourers, and domestic servants among the barren or unproductive.

**(3)** It seems wrong to say that the labour of artificers, manufacturers, and merchants does not increase the real revenue of the society. Let us grant that the value of the daily, monthly, and yearly •consumption of this class is exactly equal to the value of its daily, monthly, and yearly •production; it does not follow that its labour adds nothing to the society's real revenue, to the real value of the annual product of its land and labour. Suppose for example that an artificer in the first six months after harvest carries out £10 worth of work, at the same time consuming £10 worth of corn and other necessities; he is nevertheless adding the value of £10 to the annual product of the society's land and labour. While he has been consuming a half-yearly revenue of £10 worth of corn and other necessities, he has produced an equal value of work, capable of purchasing, either to himself, or to some other person, an equal half-yearly revenue. So the value of what has been consumed and produced during these six months is equal not to £10 but to £20. It may well be that no more than £10 worth of this value ever exists at any one moment of time. But if the £10 worth of corn and other necessities that the artificer consumes had been consumed by a soldier or a domestic servant, the value of that part of the annual product that existed at the end of the six months would have been £10 less than it actually is in consequence of the labour of the artificer. . . .

**(4)** Farmers and country labourers can no more increase, without parsimony, the real revenue, the annual product of the land and labour of their society than can artificers,

manufacturers, and merchants. The annual product of a society's land and labour can be increased only **(a)** by some improvement in the productive powers of the useful labour actually maintained within it or **(b)** by some increase in the quantity of that labour.

The improvement in the productive powers of useful labour depends on improvement in •the ability of the workman and in •the machinery he works with. But the labour of artificers and manufacturers, because it can be more subdivided and the labour of each workman reduced to a greater simplicity of operation, than that of farmers and country labourers; so it is likewise capable of both these sorts of improvement in a much higher degree [see Book I chapter 1]. So the class of cultivators can have in this respect no sort of advantage over that of artificers and manufacturers.

The increase in the quantity of useful labour actually employed within a society must depend entirely on the increase of the capital that employs it; and the increase of that capital must be exactly equal to the amount of the savings from the income of the persons who manage and direct the employment of that capital or of some other persons who lend it to them. If merchants, artificers, and manufacturers are, as this system seems to suppose, naturally more inclined to parsimony and saving than proprietors and cultivators, they are to that extent more likely to increase the quantity of useful labour employed within their society, and consequently to increase its real income, the annual product of its land and labour.

**(5)** Finally, even if the agricultural system were right in holding that the revenue of any country's inhabitants consists solely in the quantity of subsistence that their industry can procure for them, still the revenue of a trading and manufacturing country must—other things being equal—always be much greater than that of a country with no

trade or manufactures. . . . A small quantity of manufactured product purchases a large quantity of rude product. So a trading and manufacturing country naturally purchases with a small part of its manufactured product a large part of the rude product of other countries; whereas a country without trade and manufactures usually has to purchase, at the expense of a large part of its rude product, a small part of the manufactured product of other countries. . . . The inhabitants of one country must always enjoy a much greater quantity of subsistence than their own lands, in the actual state of their cultivation, could provide. The inhabitants of the other must always enjoy a much smaller quantity.

Yet this system, with all its imperfections, is perhaps the nearest approximation to the truth that has yet been published on the subject of political economy; and that makes it well worth the consideration of anyone who wishes to examine with attention the principles of that very important science. . . . In representing the wealth of nations as consisting not in the unconsumable riches of money but in the consumable goods annually reproduced by the labour of the society, and in representing perfect liberty as the only effective device for making this annual reproduction the greatest possible, its doctrine seems to be in every respect as just as it is generous and liberal. Its followers are very numerous, and its paradoxical thesis about the 'unproductive' nature of manufacturing labour may have helped to increase the number of its admirers, because men are fond of paradoxes and of seeming to understand things that surpass the comprehensions of ordinary people. For some years past they have made a pretty considerable sect, distinguished in the French republic of letters by the name of the 'Economists'. Their works have certainly been of some service to their country, not only by bringing into general discussion many subjects that had never been well

examined before, but by somewhat influencing the public administration in favour of agriculture. It is because of their representations that France's agriculture has been delivered from several of the oppressions that it had laboured under. [He gives examples; and then writes about the Economists' fidelity to and admiration of their founder, François Quesnay, an admiration that he shares.]

[Smith now has about five pages of descriptions of the attitudes to agriculture in China, ancient Egypt and Indostan, and ancient Greece and Rome. In passing he returns to theme of the inefficiency of slavery as a way of getting labour. After all this:]

I have already pointed out that the largest and most important branch of any nation's commerce what is carried on between the inhabitants of the town and those of the country. The inhabitants of the town get from the country the rude product that constitutes both •the materials of their work and •the fund of their subsistence; and they pay for this rude product by sending back to the country a certain portion of it manufactured and prepared for immediate use. The trade between these two sets of people ultimately consists in the exchange of a certain quantity of rude product for a certain quantity of manufactured product. Thus, the dearer the latter the cheaper the former: whatever tends in any country to raise the price of manufactured product tends to lower the price of the rude product of the land, and thereby to discourage agriculture. The smaller the quantity of manufactured product that any given quantity of rude product can purchase, the smaller the latter's exchangeable value, and so the smaller the encouragement the landlord has to increase its quantity by improving the land or the farmer by cultivating it. Also, anything that tends to reduce the number of artificers and manufacturers in any country tends to lessen the home market—the most important of

all markets—for the land's rude product, and thereby to discourage agriculture still further.

So systems that prefer agriculture to all other employments and try to promote it by imposing restraints on manufactures and foreign trade act contrary to the very thing they aim at, indirectly discouraging the very species of industry that they mean to promote. In this they are more inconsistent than even the mercantile system. The latter, by encouraging manufactures and foreign trade more than agriculture, turns a certain portion of the society's capital away from supporting a more advantageous kind of industry towards supporting a less advantageous one. But still it really does ultimately encourage the kind of industry that it means to promote. The agricultural systems, on the other hand, really do ultimately discourage their own favourite kind of industry.

That is how every system that tries

- by special encouragements to draw **towards** a particular kind of industry a greater share of the society's capital than would naturally go to it, or
- by special restraints to force **from** a particular kind of industry some share of the capital that would otherwise be employed in it,

is actually subverting the great purpose it means to promote. It slows down instead of accelerating society's progress towards real wealth and greatness; and it lessens instead of increasing the real value of the annual product of its land and labour.

All systems of preference or of restraint being completely taken away, the obvious and simple system of natural liberty establishes itself of its own accord. Every man, as long as he does not violate the laws of justice, is left perfectly free to pursue his own interests in his own way, and to bring his industry and his capital into competition with

those of any other man or class of men. The sovereign is completely relieved of a duty that he could not try to perform without being exposed to innumerable delusions—a duty for the proper performance of which no human wisdom or knowledge could ever be sufficient. I mean the duty of superintending the industry of private people, directing it towards the employments most suitable to the interests of the society. According to the system of natural liberty, the sovereign has only three duties to attend to; three duties of great importance, indeed, but plain and intelligible to common understandings. They are the duty of:

- protecting the society from the violence and invasion of other independent societies;
- protecting, as far as possible, every member of the society from the injustice or oppression of every other member of it, i.e. of establishing an exact administration of justice; and
- erecting and maintaining certain public works and public institutions that it can never be in the interests of any individual or small number of individuals to erect and maintain. . . .

The proper performance of those duties of the sovereign involve a certain expense; and this requires a certain revenue to support it. I shall try in Book V to explain

- (1) what the necessary expenses of the sovereign or commonwealth are, and which of them ought to be defrayed by the general contribution of the whole society; and which by some group or some particular members of the society;
- (2) what the methods are by which the whole society may be made to contribute towards defraying the expenses incumbent on the whole society, and what are the principal advantages and inconveniences of each of those methods; and



**(3)** what reasons and causes have induced almost all modern governments to mortgage some part of this revenue, i.e. to contract debts, and what effects those

debts have had on the real wealth—the annual product of the land and labour—of the society.  
So Book V will naturally be divided into three chapters.