ADAM SMITH
Critical Assessments

Edited by John Cunningham Wood

Adam Smith

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Volume IV

CROOM HELM
London & Canberra

Selection and editorial matter
© 1983 Croom Helm
Croom Helm Ltd, Provident House, Burrell Row,
Beckenham, Kent BR3 1AT

British Library Cataloguing in Publication Data
Adam Smith
1. Smith, Adam, *1723-1790*
I. Wood, John Cunningham
330.15'3 HB103.S6
ISBN 0-7099-2748-7

Phototypeset by Elephant Productions, London SE19

Printed in Great Britain by
Biddles Ltd, Guildford, Surrey

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Commentary

Given that Adam Smith was such a diverse thinker who wrote on numerous topics, it should come as no surprise to find commentators discussing his opinions and analysis of a wide range of specific issues. The ensuing articles offer insights into Smith's thoughts and activities on a range of topics.

J.S. Nicholson's 'Adam Smith on Public Debts' outlines Smith's argument, as presented in the chapter on 'Public Debts' in the *Wealth of Nations*, in such a form as to suggest an application of his fundamental ideas to the difficulties of the situation then confronting Britain. He details Smith's discussion of the historical development of public debt, the policy of sinking funds, the discussion of public debt as capital and notes Smith's views on imperial taxation and public debt. He concludes that Smith's views were most relevant to the situation confronting Britain at the end of World War I.

In 'Adam Smith's Project of an Empire', E.A. Benians argues that Smith's chapter on colonies became a landmark in the history of the British empire. To Benians, the main purpose of Smith's chapter was to correct the 'erroneous conceptions' of the value of colonies, noting the severe judgement which Smith passed on the age of mercantilism. Benians argues that, unlike his contemporaries, Smith did not show the materialism which seemed in his day to have dominated and overwhelmed all other motives of colonial expansion. Rather, Smith viewed the whole colonial movement and the problems associated with the British empire in relation to his own scheme of political economy and political philosophy. He notes that Smith's conception of an empire seemed to be based on that of Rome, in which the colony was an integral part of the state. Benians contends that Smith rejected the policy of colonial separation and advocated a united empire which had to exist for more than the merchants' profit.

C.R. Fay's 'Adam Smith, America, and the Doctrinal Defeat of the Mercantile System' argues that Smith was a liberal imperialist who passed to internationalism through affection for colonial America. After detailing the ideas of mercantilists such as Malynes, Mun, Gee and Postlethwayt, Fay provides an overview of Smith's attacks on mercantilism and argues that Smith's theory of foreign trade was internal trade internationalised. He points

out that it was possible to unlock the door to many a secret of Smith if one remembered that he was: (1) a realist; (2) a balanced thinker; and (3) a creator. He stresses that with liberty as his central interest, Smith interweaves through his five books the political and economic problems associated with British possession of America. He concludes that Smith argued for the freedom of the American colonies, so long as there was a commonwealth of nations.

J.A. La Nauze's note, 'The Substance of Adam Smith's Attack on Mercantilism', is the product of a re-reading of the *Wealth of Nations* and Lipson's *Economic History of England*. Although he finds the work admirable, La Nauze contends Lipson's claim that Smith's attack on the mercantile system involved considerable misrepresentation of the doctrines of the classical system did not damage Smith's position. La Nauze stresses that Smith's concern was to dissipate what he considered to be false economic doctrine which found expression in practice. He lists Smith's many charges against the mercantile system and reiterates the position that Smith's attack focused on a system he found in operation and in the minds of practical men, which may not have necessarily been the system intended by those who theorised about it.

W.C. Dunn's 'Adam Smith and Edmund Burke: Complementary Contemporaries' explores, by quotation and interpretation, the feasibility of relating Smith and Burke as complementary contemporaries of the late-eighteenth century. Dunn treats Smith and Burke as symbols of a relation between the contending basis of late-eighteenth-century political economy. He demonstrates that Smith, the academic economist, represented essentially the thesis of natural order philosophy, making economic deductions from social and physical phenomena. In contrast to Smith, Burke was a practical politician, who represented primarily the antithetical notion of historical-mindedness and applied inductive methods to the actualities of history and derived formulae which seemed to show the happy intent and manner of an extra-rational factor. While Smith used historical facts to support his natural order theory, Burke employed the philosophy of nature as a common denomenator for his chronological sequences. Dunn concludes that as contemporary political economists, Smith and Burke demonstrated substantial agreement.

In 'A Manuscript Attributed to Adam Smith', J.A. La Nauze relates his 1943 investigation of what had been described as a 'classical manuscript' of Adam Smith, deposited in the Victorian Public Library in Melbourne. He argues that the manuscript was not written by Smith and demonstrates the handwriting and signature were not those of Smith. He then argues that the text was in fact written by Robert Wallace who was a friendly antagonist of Hume on the populousness of ancient nations, and one of the most notable figures in Scotland of the day.

In 'Adam Smith and the Industrial Revolution', R. Koebner seeks to establish Smith's attitude towards the two great changes in the destinies of his country — the Industrial Revolution and the American Revolution. He argues that in regard to American independence, Smith offered a prophetic vision on the course of relations between America and Britain. In regard to the industrial revolution, Koebner argues that no claim of visionary gifts could be based on Smith's explicit views, as there was not a line in the *Wealth of Nations*

anticipating such transformations as were to take place. He argues that one could only establish Smith's attitude to the early stages of the industrial revolution by banishing most of what is commonly implied in this historical concept, for he could not possibly have foreseen the quantitative effects of the inventions during his own lifetime. Koebner demonstrates that Smith's practical aim was not to predict the future course of industry and technical change, but to expose the evils of the mercantile system.

The purpose of J.M.A. Gee's 'Adam Smith's Social Welfare Function' is to show that Smith was aware of the *welfare* implications of 'wealth' economics. He argues that Smith made *explicit* the association between wealth and welfare as well as making explicit the nature of the ethical and value judgements involved. Gee outlines Smith's analysis of moral sentiments, the relationship in Smith's writing between key moral sentiments, economic activity and welfare, the effects of an exogeneously given economic environment on moral sentiments and welfare and Smith's views on the problem of distribution and welfare maximisation. He concludes that Smith's analysis went far beyond that of modern economists since it considered welfare in the widest possible sense, with full awareness of its ethical and moral implications and its relationship with wealth.

P.D. Groenewegen's 'A New Catalogue of Adam Smith's Library' is a review note of H. Mizuta's *Adam Smith's Library. A Supplement to Bonar's Catalogue with a Check-list of the Whole Library*. After discussing the contents of the new catalogue, Groenewegen draws some conclusions relating to the economic contents of the library. He notes how Mizuta's catalogue reveals the extent of Smith's reading in English, French and Italian economists. To Groenewegen, the only really notable omissions from Smith's collection, as shown in the catalogue, were Petty's economic writings, the monetary essays of John Locke and Mandeville's *Fable of the Bees*. He argues that the French part of Smith's library reveals that he had a much wider acquaintance with French eighteenth-century economics than Cannan, W.R. Scott and Fay indicated in their studies of Adam Smith. Finally, he notes that the task of researchers is to use the wealth of information contained in Mizuta's catalogue to shed more light on the works of Smith and on the origin of his ideas.

At the commencement of 'Turgot and Adam Smith', P.D. Groenewegen quotes from Du Pont de Nemours and Condorcet on the possible relationship between Turgot's *Reflections on the Formation and Distribution of Wealth* and Smith's *Wealth of Nations* and notes how scholars have repeatedly been both intrigued by and offered different explanations on the relationship between the two works. Groenewegen attempts to review the controversy and appraise the evidence in order to offer some conclusions on the 'Smith-Turgot' myth. After classifying the evidence on which the myth has been based, he points out that commentators have approached the topic in two different ways: (1) those who attempted a comparison of Turgot and Smith based on their method of analysis, philosophical outlook and economic systems; (2) those who have examined detailed textual comparisons from the writings of the two economists. Groenewegen reviews both approaches and concludes that the historical evidence remains inconclusive, except for the fact that Smith at least knew part of the *Reflections* if not the whole of it, although it would appear he

may have used only a few passages from the *Reflections* in the *Wealth of Nations*. He also notes that while broad similarities in contents and basic conclusions of the two works exist, such similarities disappear on closer examination. Finally, he points out that it is not the least surprising that given the similar outlook on economic issues and with common theoretical forefathers, that Smith and Turgot produced books with so many similar ideas.

F. Petrella's 'Individual, Group, or Government? Smith, Mill, and Sidgwick' disputes Warren Samuels' view, outlined in *The Classical Theory of Economic Policy*, that the classical policy system was not 'a negative one of some "minimization" of the role of government but rather the affirmative espousal of a theory of a pluralist socioeconomic order'. Petrella argues that Samuels obscured the historically shifting mix of the elements of power and Smith claimed a greater share of economic power for the individual and for non-legal instruments of control. He argues that the main mechanism for socioeconomic control in the *Wealth of Nations* was the 'best interests' principle, namely that the individual was considered the best judge of his own best interest. Smith's acceptance of this principle did not mean that he advocated no government. On the contrary, his grasp of the limitations associated with the principle meant he accepted government as an integral part of the system of natural liberty. Petrella demonstrates that in Smith's system the individual was offered the principal share of economic power and was the main instrument through which the objectives of economic policy were pursued. Although Smith recognised a need for government activity, he advocated an efficient, decentralised government with minimal functions. To Smith, the government's role was to superintend and periodically patch minor defects in the institutional superstructure of the system of natural liberty but not to tamper with its foundation.

J.A. Gherity's brief note, 'A Quest for an Unrecognised Publication of Adam Smith', suggests that Smith may have published some papers in the *Monthly Review*. He traces the activities of Mr Rose, editor of the *Monthly Review*, who purchased 25 copies of the *Theory of Moral Sentiments*. Although Gherity examines, albeit superficially, issues of the *Monthly Review* from 1760 to 1765 he was unable to identify any of Smith's writings.

In 'Smith, Turgot, and the "Four Stages" Theory', R.L. Meek argues that if Smith's version of the four stages theory can be dated to the winter of 1750-1 or earlier, we would have one of the most remarkable coincidences in the whole history of socioeconomic thought, since it was precisely during this period that Turgot was writing down his version of the same theory. Meek notes that two types of influence could have operated to produce such a result: (1) the global or environmental causes which may have encouraged the general attitudes underlying the new view; (2) the more specific 'literary' sources from which the actual building blocks are derived. In regard to the former, Meek stresses the important connection between the 'four stages' theory and the concepts of progress and the perfectibility of mankind. He lists three streams of thought which may have had an important influence: (1) the writings on the historical origin of property in what may be called the Pufendorf-Locke tradition; (2) the book by Charlevoix and Lafitan on the Indian tribes of North America; (3) the

writings in the tradition of the providential view of history of which Boussuet's *Historie Universelle* is one of the best-known examples.

At the commencement of his paper, 'Adam Smith and the American Economic Community. An Essay in Applied Economics', A.S. Skinner notes that in addressing the question of colonial power in the *Wealth of Nations*, Smith was one who hoped for union between Britain and America as a solution to current difficulties, while recognising that total separation was the more likely solution in reality. He also notes that Smith brought some originality to the debate on the American colonies by showing that the differing rates of growth in the two countries must inevitably cause change in the relationship. The purpose of Skinner's paper is threefold. First, to restate Smith's argument in the general form of an exercise in theoretical history, which was a form of inquiry Smith used a great deal. Secondly, to use the restatement to clarify the steps of an argument which were largely implicit and at the same time isolate some of the more obvious forms of criticism to which it may be subject. Finally, Skinner suggests that Smith's writings on the colonial question may have been designed as an essay in *persuasion* and that Smith may have set out to produce a single argument composed of a number of separate parts organised in such a way that each component gained strength and plausibility from its association with the others.

R.L. Meek's 'New Light on Adam Smith's Glasgow Lectures on Jurisprudence' views a set of notes discovered in the Commonplace Book of a professional colleague of Smith's, which Meek believes are selective extracts from a student's notes of a relatively early version of Smith's jurisprudence lectures. Meek read these notes, together with the 1762-3 lecture notes, and the Cannan notes, to attempt to shed new light on Smith's Glasgow period, particularly on three specific questions: To what extent Smith, at the outset, based his Moral Philosophy course on Francis Hutcheson's? What role, in the early years, did 'economics' play in his course, and at what point exactly was it brought in? Did he use the four stages theory in his early lectures, or was this theory a later importation, derivative rather than original?

In 'The Economics of Adam Smith: Professor Hollander's Reappraisal', L.S. Moss reviews those parts of Hollander's work where his interpretations differ, most from those of the secondary literature. He points out that whereas other writers declared the *Wealth of Nations* riddled with paradox, contradictions and the like, Hollander argues that the work contains a detailed understanding of the operation of markets as well as a grasp of the subtle changes British industry was experiencing. Moss notes how a large number of writers have maintained that the *Wealth of Nations* belongs to a pre-industrial age and its arguments apply to an agrarian society with small artisan crafts. He points out that Hollander devotes large portions of his book to demonstrating that Smith understood the significance of the major industrial trends of eighteenth-century Britain and that the understanding of these trends influenced what he had to say about the division of labour within the emerging factory system. In his conclusion, Moss states that Smith's account of the dynamics of the pricing mechanism and its impact on the investment process is the centre of his economic argument as well as his original scientific contribution.

The central thesis of G.V. Rimlinger's 'Smith and the Merits of the Poor' is that Smith was basically sympathetic towards what we would call an interventionist social policy on behalf of the poor. Rimlinger argues that Smith's acceptance of the fundamental natural harmony of individual and social interests precluded such intervention only in an ideal world, which could never be fully realised. In the real world Smith found many flaws, some of which he thought necessitated preventive or corrective actions by the state. To Rimlinger, Smith was not afraid that state intervention on behalf of the poor would hurt their working and saving habits, or that it would be likely to damage seriously the interests of the wealthy. However, Rimlinger concludes that as a general proposition, Smith saw a better chance for the common man under *laissez-faire* than under protection by a government that had neither the competence nor the inclination to deal with the problems of the poor.

M. Avila's 'Smith and Undeveloped Nations' compiles Smith's references to poor areas, including a description of the lack of specialisation there, the dangers of capital importation in underdeveloped regions, the benefits to the modern section and the costs to the 'rural' areas from the policies of the developed countries and other parallels with contemporary literature. Avila documents and then praises Smith's observations and advice and he concludes that the *Wealth of Nations* had more to offer to the underdeveloped countries than modern economic theory.

In 'Smith, Morality, and the Bankers', L. Armour outlines how Smith urged that two specific conditions be imposed upon bankers — that they should always be ready to redeem their deposits and that they should not issue circulating notes of small denominations. He argues that in Smith's system the basis of the good society is not automatically given by creating the conditions under which self-interest may flourish. He claims that self-interest was only tolerable to Smith when one is already given a society in which men were bound together by rational principle. It is only within such a society that we may see how to treat self-interest and just why we frequently, but not always, applaud its exercise.

J.M. Jadlow's note 'Adam Smith on Usury Laws' examines Smith's rationale for supporting usury laws and evaluates his analysis of this subject. He argues that Smith supported usury laws on the grounds that they discouraged consumption loans and highly speculative loans and that an interest ceiling would shift additional loanable funds to productive business investments. Jadlow considers that Smith's analysis was 'fairly sophisticated' and that he demonstrated an appreciation of the role of risk in credit markets. He concludes that an unfortunate omission from Smith's presentation was any discussion of the relationship of usury laws to political institutions and the special interests of the various parties.

H. Recktenwald's 'An Adam Smith Renaissance *anno* 1976? The Bicentenary Output — A Reappraisal of His Scholarship' provides a detailed overview of the publications surrounding the celebration of the bicentenary of Adam Smith. He argues that in the scholar's world, as compared with the sesquicentennial and centennial publications, a kind of Smith *renaissance* seems to be in process. In his view, this 'new era' of Smithian studies has four main features: (1) there is an emphasis on viewing Smith's work

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comprehensively, as an integrated whole; (2) there is a presentation and vindication of Smith's purely economic theory in geometric form by academics such as P. Samuelson and S. Hollander, who have most recently started to scrutinise strictly Smith's circular flow and growth theories; (3) there is a special interest in Smith's social and historical system as background for his economic theory; (4) there is a new concern with the role of the state and sociopolitical institutions in Smith's dual or 'mixed economy'. After his detailed survey of the literature, Recktenwald stresses that Smith was an educated and cultured man, who was creative and original as a thinker and unique as an architect of thoughts. He argues that his natural system of liberty and justice has an indestructible vitality because it was constructed on his realistic observations and cool assessment of man's nature — the individual's self-interested economic and political activity in society. Recktenwald finds this system permeable and flexible which, despite its imperfections, continued to be the very basis of those modern theories that have the best chance to explain and 'correct the working of an efficient and just economy *and* community in the future'.

In 'Scotland's Resurgent Economist: A Survey of the New Literature on Adam Smith', E.G. West offers a critical review of what he considers the salient developments in the literature — journal and book — on Smith in the post-World War II period. West's paper comprises six parts: Part I reviews the recent discussion of the applicability of the works of Popper, Kuhn and Lakatos, to economic methodology as it concerns the work of Adam Smith; Part II examines the post-war interpretations of Smith's theory of value and growth; Part III analyses new comparisons of Smith's theory of competition with neoclassical theory; Part IV compares Smith's classical assessment of monopoly with neoclassical; Part V examines the 'vindication' of Smith's international trade theory; and Part VI overviews the new literature on Smith's analysis of institutions, politics and the role of the state.

A.W. Coats' 'Beyond Adam Smith's Economics' is a review note of *Adam Smith, Lectures on Jurisprudence*, edited by R.L. Meek, D.D. Raphael and P.G. Stein and D. Winch's *Adam Smith's Politics: An Essay in Historigraphic Revision*. He notes that in their introduction to Smith's *Lectures on Jurisprudence*, the editors refrain from attempting a general evaluation of the new material but provide an exact description of the manuscript, an estimate of the dating based on a meticulous reconstruction of Smith's lecture timetable and an analysis of the substantial differences in the content and structure of lectures. Turning to Winch's work on *Adam Smith's Politics*, Coats notes how Winch dismisses George Stigler's Chicago-style analysis of Smith's neglect of self-interest in political affairs by stressing the role of 'opinion' as well as 'interest' in his system. Although he regrets that Winch did not analyse in detail Smith's treatment of the relationship between the 'commercial' stage of socioeconomic development and the 'mercantile system', Coats claims that Winch sheds valuable light on neglected aspects of Smith's work such as the machinery of government and the influence of political factions.

W.D. Grampp's 'Adam Smith and the American Revolutionists' shows that what the Americans said and did around the time of the Revolution can be

understood by comparing it with the nationalism and the utilarianism of Smith. He is not concerned with establishing the fact that Americans took their ideas from Smith and from no other, but with demonstrating that Smith's ideas explain American nationalism and utilarian thinking better than the ideas of anyone else.

In 'Adam Smith on Abstinence', B.A. Goss notes how Nassau Senior is usually credited with the development of the theory of abstinence. Goss also points out that the papers by H. Recktenwald draw scholars' attention to the importance of viewing Smith's work as an integrated whole. Accordingly, Goss argues that Smith's definition and introduction of the term 'abstinence' in the *Theory of Moral Sentiments* has been overlooked. Goss redresses this neglect and suggests that Smith's definition of abstinence, his emphasis on the difficulty of undertaking abstinence and his ideas of the prospective gain motivating abstinence, have a great deal in common with Senior's treatment.

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Adam Smith on Public Debts

J.S. Nicholson

Source: *Economic Journal*, Vol. 30 (117), March 1920, pp. 1-12

In olden times there lived a man whose body had the peculiar quality, however much it was cut to pieces, of coming together again as strong as ever. All the paladins of the time made trial of this unconquerable wonder, and all in vain. One of them cut off the head and hurled it into the middle of a river; another divided the trunk longways, another sideways, and others other ways; they cut off limbs and dug out organs at their pleasure – but still the bits ran together again like drops of quick-silver, and the man was unconquerable. Of such quality is the author of the *Wealth of Nations*. For nearly a century and a half he has been cut to pieces, and still the pieces have come together again, and the old Adam is as strong as ever.

To carry the fable further would be tedious. The moral will be obvious to any who will read *in extenso* the chapter on "Public Debts" – the last in the *Wealth of Nations* and the fitting crown of the whole work.

I. Historical Development of Public Debts

The chapter begins as usual with a vigorous sketch of the historical development. As usual, also, the history makes the past live in the present. "The parsimony which leads to accumulation [*i.e.*, of treasure in war chests] has become almost as rare in republican as in monarchical governments. The Italian republics, the United Provinces of the Netherlands are all in debt. The canton of Berne is the single republic in Europe which has amassed any considerable treasure. The other Swiss republics have not."

In time of war – even in the pre-Adamite world – it was necessary to resort to debt. "The want of parsimony in time of peace imposes the necessity of contracting debt in time of war. . . In war an establishment of three or four times the ordinary expense becomes necessary for the defence of the State; and consequently a revenue three or four times greater than the peace revenue."

Such an increase of revenue is in general impossible, and, even if possible, is not possible in the time available. "The moment the war begins, or, rather, the moment in which it appears likely to begin, the army must be augmented, the

fleet must be fitted out, the garrisoned towns must be put in a posture of defence; that army, that fleet, those garrisoned towns must be furnished with arms, ammunition and provisions. An immediate and great expense must be incurred, in that moment of immediate danger, which will not wait for the gradual and slow return of the new taxes. In this exigency the Government can have no other resource but in borrowing."

In the light of this passage, it is strange to find Adam Smith cited by Professor W.R. Scott as a supporter of the "all-tax" method, with the further implication that the tax revenue ought to be augmented three- or four-fold.[1]

The next step in the argument is to show that the necessity of borrowing brings with it, *i.e.*, in a commercial state of society, the facility of doing so. "A country abounding with merchants and manufacturers necessarily abounds with a set of people who have it at all times in their power to advance, if they choose to do so, a very large sum to Government. Hence the ability in the subjects of a commercial State to lend."

"Commerce and manufactures, however, can seldom flourish long in any State which does not enjoy a regular administration of justice; in which the people do not feel themselves secure in the possession of their property. . . . Commerce and manufactures, in short, can seldom flourish in any State in which there is not a certain degree of confidence in the justice of the Government." This confidence necessary for commerce under ordinary conditions makes the merchants trust the Government on extraordinary occasions. They are willing to lend for defence. Also, they find the lending profitable. By lending to the State they increase rather than diminish their own credit. Their Government securities are transferable often at a premium. This readiness to borrow and willingness to lend make the accumulation of treasure hard and that of debt easy. Then follows a sentence by way of introduction to the further historical development which has often been quoted as if it were the prophetic conclusion. "The progress of the enormous debts which at present oppress, and will in the long run probably ruin, Europe – *has been pretty uniform*." The last clause has been left out, and ridicule has been thrown on the prophecy because the great Napoleonic War debt did not ruin England.

Although the sentence is an introductory *obiter dictum*, it seems as if in our time the length of run has been sufficient to bring the prophecy very near fulfilment. Economic ruin admits of varied interpretations, but most of them apply at present to the greater part of Europe, and most of the ruin is to be ascribed to the piling up of debt. But for the debt the nations could not have carried on so long in war. It is the burden of the debt that makes it so difficult to carry on in peace.

The "pretty uniform" progress of the debts of Europe has been marked by two methods. "Nations, like private men, have generally begun to borrow upon what may be called personal credit, without assigning or mortgaging any particular fund for the payment of the debt; and when this resource has failed them, they have gone on to borrow upon assignments or mortgages of particular funds." When the mortgaging method is resorted to it may be in one of two ways. Sometimes the assignment of the mortgaged revenue is for a short time – a year or a few years; sometimes for perpetuity. In the first case, the fund was supposed to pay within a limited time both principal and interest. In the second

case, the fund was sufficient only to pay the interest – or a perpetual annuity equivalent to the interest – the Government being at liberty to redeem the annuity at any time by paying back the principal. When money was raised in the first way it was said to be raised by "the method of anticipation"; when in the other by "perpetual funding or, more shortly, funding."

There follows a very graphic history of the progress in England of the method of anticipation – written in the grand realistic antiquarian manner, with just the odour of irony in quoting the official accounts down to ¼*d*., ½*d*. and ¾*d*.

The particular mortgages were succeeded by the first general mortgage of several different taxes. The first general mortgage was succeeded by the second, and so on up to the sixth. "The sum borrowed on the sixth was £1,296,552 9*s*. 11¾*d*." More and more taxes were rendered perpetual, and accumulated into another common fund, called the general fund, for the payment of certain annuities, the whole sum, about three-quarters of a million, being quoted down to 10½*d*.

"In consequence of these Acts, the greater part of the taxes, which before had been anticipated only for a short term of years, were rendered perpetual as a fund for paying not the capital, but the interest only, of the money which had been borrowed upon them by different anticipations."

Had the method of anticipation been followed strictly, the debts borrowed to meet extraordinary expenses would have been extinguished in short periods and the corresponding revenues liberated – if only the Governments had paid attention to not overloading and not anticipating new debt before the old was repaid. "But the greater part of European nations have been incapable of those attentions." They have overloaded even on the first anticipation and have anticipated a second and a third time before the expiration of first anticipation.

The fund derived from the anticipation of taxation became in time no more than sufficient to pay the interest, leaving nothing for the extinction of the principal. "Such improvident anticipations necessarily gave birth to the ruinous system of perpetual funding."

When people have once become accustomed to this ruinous practice, it has been universally preferred to the simple and safe method of definite anticipation. "To relieve the present exigency is always the object which principally interests those immediately concerned in the administration of public affairs. The future liberation of the revenue they leave to posterity."

The outstanding merit of this application of the historical method is that it shows the intimate connection of public debt and taxation. Every increase of public debt means, some time or other, an increase of taxation or a lessening of the revenue available for other services.

II. Sinking Funds

Next follows the examination of the sinking-fund policy. Again the historical method is applied.

A sinking fund has two origins. On the return of peace the continuance of the war taxes, or of some of them, will yield a surplus revenue after meeting the

ordinary expenses of the State. It may be observed in passing that Adam Smith, although showing that debt is always preferred to taxation, is not an "all-debt" man. He knew very well historically that war also increases taxes. Anticipation of old taxes is not enough. New taxes must be put on and also anticipated. There will always be some pretence, even after the ruinous system is in full swing, of making the tax system pay at least the interest.

If, then, the new taxes (with the old) yield a surplus of revenue, "it may perhaps be converted into a sinking fund for paying off the debt." Perhaps. But even if there is a surplus, it will probably be altogether inadequate for paying off the debt "within any period during which it is likely that peace may continue." Adam Smith had not anticipated the discovery by Mr. Wilson that war could be abolished by a League of Nations.

The other real source of a sinking fund is a fall in the rate of interest. Here, also, the yield is meagre. "Hence the usual insufficiency of such funds."

Not only are sinking funds in general too small for the purpose, but in general, also, such as they are, they are liable to be raided. During the most profound peace various events occur which demand an extraordinary revenue. Every new tax is felt more or less. There is always some murmuring at new taxation, especially if the old taxation is already high. A momentary suspension of the payment of the debt occasions no murmers or complaints. To borrow of the sinking fund is always an obvious and easy expedient for getting out of the present difficulty. The greater the debt, and the greater the need for a sinking fund, so much the more likely – so much the more certain – is it to be misapplied for extraordinary expenses in peace. "Nothing but the necessities of a new war . . . can induce the people to submit to a new tax. Hence the usual misapplication of the sinking fund."

There follows a detailed account of the history of the reduction of the public debt of Britain "since we had recourse to the ruinous system of perpetual funding," with the general result that the reduction has never borne any considerable proportion to the accumulation in time of war. Hence the meticulous irony of antiquarian is carried into the quotation of sums down to one-twelfth of a penny. "During the profound peace of eleven years little more than ten millions of debt was paid; during a war of seven years more than one hundred millions was contracted."

According to these figures, debt was paid off at the rate of less than a million a year in peace and accumulated at more than fourteen millions a year in war time. The corresponding proportion of our last years of peace to the years of war just concluded gives about one to four hundred.

"The new debt," he says, "which will probably be contracted before the end of the next campaign may perhaps be equal to all the old debt that has been paid off." Accordingly, he concludes that "it would be altogether chimerical to expect that the public debt should ever be completely discharged by any savings that are likely to be made from the ordinary revenue as it stands at present."

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