



**EJW**

ECON JOURNAL WATCH  
Scholarly Comments on  
Academic Economics

ECON JOURNAL WATCH 14(3)  
September 2017: 430–473

# What Adam Smith Told His Teenagers About Domestic Policy

## Foreword to “Lectures on Domestic Policy”

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*...the first rudiments of pure ethics and of liberal politics taught in modern times. I need scarcely add, that I allude to the systems of natural jurisprudence compiled by Grotius and his successors...*

—Dugald Stewart (1854, 26, his emphasis; see also 183)

*The child of jurisprudence is liberalism...*

—J. G. A. Pocock (1983, 249)

Today we see soul-searching about liberalism, and reexamination of its original arc—*ad fontes!* Special attention is paid to Adam Smith, whose works, like the Bible, appeal to differing persuasions. Each interpreter points up passages per her persuasion.

A special window on Smith’s sensibilities is found in the record of what he said about domestic policy to his students at the University of Glasgow, who were mostly teenagers (Scott 1937, 28). The eminent professor seeks to edify them in a basic outlook for domestic policy, a way of formulating and estimating the objects of public policy. What does Smith put across?

In such context, Smith would not be much concerned about how his words would have sounded to those beyond the immediately congregated. His words might travel somewhat, as a student might scrawl a transcription, which might pass hand to hand or be duplicated by hand. Still, the transcription reproduced here is somewhat like a surreptitious recording of a private lecture. It provides a candor and casualness that we do not have in the works composed and released by Smith for publication.

The material derives from Smith’s 1763–1764 jurisprudence course and

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represents most of the parts of the course devoted to domestic policy (“police”), a part subsequent to Smith’s treating jurisprudence in the narrower sense. Today, readers might be acquainted with the *Lectures on Jurisprudence* edited by R. L. Meek, D. D. Raphael, and P. G. Stein (Smith 1978). The material reproduced here corresponds to that volume’s second transcription, known as LJ(B). What is reproduced here, however, is that transcription as it was first published by the Clarendon Press at Oxford University in 1896, edited by Edwin Cannan. We use Cannan’s version because it is not under copyright and because it is more readable, thanks to his gentle cleaning and section headings. Cannan divided the work into five main parts, and superimposed the headings “Of Justice,” “Of Police,” “Of Revenue,” “Of Arms,” and “Of the Law of Nations.” Here we reproduce only the “Of Police” part, omitting from it two sections.<sup>2</sup> Cannan’s version is online at Liberty Fund’s marvelous Online Library of Liberty ([link](#)), and we thank Liberty Fund, as we lifted the text reproduced here from their site.

Here Smith uses “liberty” often enough, and in the same sense as in *The Wealth of Nations*. But nowhere here (or anywhere in the jurisprudence transcriptions) does Smith use the expressions “natural liberty” or “perfect liberty,” as he quite frequently does in WN. Nor do we find, as we do in WN, eloquent and pregnant passages about liberty, nor signal passages about “the liberal plan” or “the liberal system.”

But here, in the “police” part of the course, we also find, tax-supported night-watchman functions aside, virtually no exceptions to the liberty principle.<sup>3</sup> The liberty principle is advanced less eloquently but more steadily than in WN. Smith does not serenade his students; the tone, rather, tends towards one not unknown to free-marketeer instructors of economic principles: benignant and mirthful confidences about the world’s systematic illiberal follies and hypocrisies. He tells the students time after time that, as far as policy goes, the best available option is liberalization and freer enterprise. For example, he roundly endorses free banking, mentioning none of the exceptions found in WN. At virtually every turn, the answer to, *And what is the best course for policy?*, is freer enterprise, even for crime prevention! The closest thing to an exception in the entire domestic-policy part

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2. We have omitted only two portions of the “Of Police” material: (1) Some discussion of various authors on money, prices, and international trade (506–508 in LJ(B) and 195–198 in the Cannan edition); (2) the lengthy account of the scheme of John Law (515–519 in LJ(B) and 211–219 in Cannan). The two portions were omitted simply to reduce tedium; their inclusion would not have dimmed the aspect to which we call attention. Incidentally, I would say the choppy and incomplete LJ(A) and the brief Anderson Notes (Meek 1976) also do not dim the aspect to which we call attention, but neither do they render that aspect so engagingly.

3. By “liberty principle” I mean what Klein and Clark (2010) formulate as the direct-liberty principle, as opposed to the overall-liberty principle. The distinction is particularly pertinent for reading Smith, as several of WN’s exceptions to the direct-liberty principle are defended with overall-liberty considerations.

comes in discussing disadvantages of a commercial spirit, where Smith merely remarks: "To remedy these defects would be an object worthy of serious attention." His recommendations for policy reform are devoid of restrictions on voluntary affairs and of government as a more active player in social affairs. The outlook that Smith imparted to his teenage students was one presumptively opposed to the governmentalization of social affairs.

I do not mean to suggest that all of WN's equivocations, exceptions, and inconsistencies are to be regarded as rhetorical ploys and hence discounted. But I do suggest that Smith believed that the liberty principle and "the liberal plan" are challenging. They challenge not only entrenched interests and popular prejudices, but primordial human instincts. He recognized and anticipated reactionary distaste for liberal ideas. Yet he wanted the engagement of his works to be broad, long-lived, and irenic. He assures us that he was no man of system, that he was not proposing a rationalistic application of the liberty principle. His published works not only taught Solonic political moderation, they practiced it.

In fact, in *other* parts of LJ(B) (and LJ(A)), Smith mounts arguments for positions that he himself seems to consider contraventions of (commutative) justice and therefore of the liberty principle. For example, Smith indicates that he does not consider it a breach of (commutative) justice to decide not to raise, or even to abandon, one's child (LJ, 449, 172), and likewise to divorce or take multiple wives (*ibid.*, 442, 150f.), and yet he argues against both, invoking overall-liberty arguments particularly for prohibiting polygamy. Nonetheless, when he turns to the "inferior parts of government, viz:—cleanliness, security and cheapness or plenty," constituting "police," the pro-liberalization aspect is remarkably steady.

In describing his editing of the text, Cannan writes: "In the present edition the punctuation of the manuscript has been entirely disregarded, the spelling has been modernized and sectional headings have been added. . . . So far as possible, the new headings have been adapted from words used in the text. . . . The added headings are distinguished from those which occur in the manuscript by being enclosed in square brackets" (Cannan 1896, xx–xxi). All bracketed words and the brackets themselves [like these], therefore, are directly reproduced from the Cannan text.<sup>4</sup> Cannan also introduced his own explanatory footnotes, but we have omitted them here. The only other changes are insertions of alerts, in braces {like these}, to mark and explain omissions we have made.

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4. "No attempt has been made to amend the report itself, much less the lectures, but mere clerical errors of the copyist have been amended wherever there appeared to be no reasonable doubt as to the correct reading. In every such case, however trivial, the reading of the manuscript is placed on record, words left out or altered being printed in the notes, and words added being enclosed in square brackets" (Cannan 1896, xxi).

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# Lectures on Domestic Policy

Adam Smith

[LINK TO ABSTRACT](#)

## [Division I. Cleanliness and Security.]

Police is the second general division of jurisprudence. The name is French, and is originally derived from the Greek *πολιτεια*, which properly signified the policy of civil government, but now it only means the regulation of the inferior parts of government, viz:—cleanliness, security and cheapness or plenty. The two former, to wit, the proper method of carrying dirt from the streets, and the execution of justice, so far as it regards regulations for preventing crimes or the method of keeping a city guard, though useful, are too mean to be considered in a general discourse of this kind. An observation or two before we proceed to the third particular is all that is necessary.

We observe then, that in cities where there is most police and the greatest number of regulations concerning it, there is not always the greatest security. In Paris the regulations concerning police are so numerous as not to be comprehended in several volumes; in London there are only two or three simple regulations. Yet in Paris scarce a night passes without somebody being killed, while in London, which is a larger city, there are scarce three or four in a year. On this account one would be apt to think, that the more police there is the less security; but this is not the cause. In England as well as in France, during the time of the feudal government, and as late as Queen Elizabeth's reign, great numbers of retainers were kept idle about the noblemen's houses, to keep the tenants in awe. These retainers, when turned out, had no other way of getting their subsistence but by committing robberies, and living on plunder, which occasioned the greatest disorder. A remain of the feudal manners, still preserved in France, gives occasion to the difference. The nobility at Paris keep far more menial servants than ours, who are often turned out on their own account or through the caprice of their masters, and, being in the most indigent circumstances, are forced to commit the most dreadful crimes. In Glasgow, where almost nobody has more than one servant, there are fewer capital crimes than in Edinburgh. In Glasgow there is

not one in several years; but not a year passes in Edinburgh without some such disorders. Upon this principle, therefore, it is not so much the police that prevents the commission of crimes as the having as few persons as possible to live upon others. Nothing tends so much to corrupt mankind as dependency, while independency still increases the honesty of the people.

The establishment of commerce and manufactures, which brings about this independency, is the best police for preventing crimes. The common people have better wages in this way than in any other, and in consequence of this a general probity of manners takes place through the whole country. Nobody will be so mad as to expose himself upon the highway, when he can make better bread in an honest and industrious manner. The nobility of Paris and London are no doubt much upon a level; but the common people of the former, being much more dependent, are not to be compared with those of the latter: and for the same reason the commonalty in Scotland differ from those in England, though the nobility too are much upon a level.

Thus far for the two first particulars which come under the general division of police.

## [Division II. Cheapness or Plenty.]

### [§ 1. *Of the Natural Wants of Mankind.*]

In the following part of this discourse we are to confine ourselves to the consideration of cheapness or plenty, or, which is the same thing, the most proper way of procuring wealth and abundance. Cheapness is in fact the same thing with plenty. It is only on account of the plenty of water that it is so cheap as to be got for the lifting; and on account of the scarcity of diamonds (for their real use seems not yet to be discovered) that they are so dear. To ascertain the most proper method of obtaining these conveniences it will be necessary to show first wherein opulence consists, and still previous to this we must consider what are the natural wants of mankind which are to be supplied; and if we differ from common opinions, we shall at least give the reasons for our non-conformity.

Nature produces for every animal everything that is sufficient to support it without having recourse to the improvement of the original production. Food, clothes and lodging are all the wants of any animal whatever, and most of the animal creation are sufficiently provided for by nature in all those wants to which their condition is liable. Such is the delicacy of man alone, that no object is produced to his liking. He finds that in everything there is need of improvement. Though the

practice of savages shows that his food needs no preparation, yet being acquainted with fire, he finds that it can be rendered more wholesome and easily digested, and thereby may preserve him from many diseases which are very violent among them. But it is not only his food that requires this improvement; his puny constitution is hurt also by the intemperature of the air he breathes in, which, though not very capable of improvement, must be brought to a proper temperament for his body, and an artificial atmosphere prepared for this purpose. The human skin cannot endure the inclemencies of the weather, and even in those countries where the air is warmer than the natural warmth of the constitution, and where they have no need of clothes, it must be stained and painted to be able to endure the hardships of the sun and rain. In general, however, the necessities of man are not so great but that they can be supplied by the unassisted labour of the individual. All the above necessities everyone can provide for himself, such as animals and fruits for his food, and skins for his clothing.

As the delicacy of a man's body requires much greater provision than that of any other animal, the same or rather the much greater delicacy of his mind requires a still greater provision to which all the different arts [are] subservient. Man is the only animal who is possessed of such a nicety that the very colour of an object hurts him. Among different objects a different division or arrangement of them pleases. The taste of beauty, which consists chiefly in the three following particulars, proper variety, easy connexion, and simple order, is the cause of all this niceness. Nothing without variety pleases us; a long uniform wall is a disagreeable object. Too much variety, such as the crowded objects of a parterre, is also disagreeable. Uniformity tires the mind; too much variety, too far increased, occasions an over-great dissipation of it. Easy connexion also renders objects agreeable; when we see no reason for the contiguity of the parts, when they are without any natural connexion, when they have neither a proper resemblance nor contrast, they never fail of being disagreeable. If simplicity of order be not observed, so as that the whole may be easily comprehended, it hurts the delicacy of our taste. Again, imitation and painting render objects more agreeable. To see upon a plain, trees, forests, and other such representations, is an agreeable surprise to the mind. Variety of objects also renders them agreeable. What we are every day accustomed to does but very indifferently affect us. Gems and diamonds are on this account much esteemed by us. In like manner our pinchbeck and many of our toys were so much valued by the Indians, that in bartering their jewels and diamonds for them they thought they had made by much the better bargain.

[§ 2. *That all the Arts are subservient to the Natural Wants of Mankind.*]

Those qualities, which are the ground of preference, and which give occasion

to pleasure and pain, are the cause of many insignificant demands, which we by no means stand in need of. The whole industry of human life is employed not in procuring the supply of our three humble necessities, food, clothes and lodging, but in procuring the conveniences of it according to the nicety and delicacy of our taste. To improve and multiply the materials, which are the principal objects of our necessities, gives occasion to all the variety of the arts.

Agriculture, of which the principal object is the supply of food, introduces not only the tilling of the ground, but also the planting of trees, the producing of flax, hemp, and innumerable other things of a similar kind. By these again are introduced different manufactures, which are so very capable of improvement. The metals dug from the bowels of the earth furnish materials for tools, by which many of these arts are practised. Commerce and navigation are also subservient to the same purposes by collecting the produce of these several arts. By these again other subsidiary [arts] are occasioned. Writing, to record the multitude of transactions, and geometry, which serves many useful purposes. Law and government, too, seem to propose no other object but this; they secure the individual who has enlarged his property, that he may peaceably enjoy the fruits of it. By law and government all the different arts flourish, and that inequality of fortune to which they give occasion is sufficiently preserved. By law and government domestic peace is enjoyed and security from the foreign invader. Wisdom and virtue too derive their lustre from supplying these necessities. For as the establishment of law and government is the highest effort of human prudence and wisdom, the causes cannot have a different influence from what the effects have. Besides, it is by the wisdom and probity of those with whom we live that a propriety of conduct is pointed out to us, and the proper means of attaining it. Their valour defends us, their benevolence supplies us, the hungry is fed, the naked is clothed, by the exertion of these divine qualities. Thus, according to the above representation, all things are subservient to supplying our threefold necessities.

**[§ 3. *That Opulence arises from the Division of Labour.*]**

In an uncivilized nation, and where labour is undivided, everything is provided for that the natural wants of mankind require; yet, when the nation is cultivated and labour divided, a more liberal provision is allotted them; and it is on this account that a common day labourer in Britain has more luxury in his way of living than an Indian sovereign. The woollen coat he wears requires very considerable preparations—the wool-gatherer, the dresser, the spinster, the dyer, the weaver, the tailor, and many more, must all be employed before the labourer is clothed. The tools by which all this is effectuated employ a still greater number of artists—the loom-maker, miln-wright, rope-maker, not to mention the bricklayer,

the tree-feller, the miner, the smelter, the forger, the smith, &c. Besides his dress, consider all his household furniture, his coarse linens, his shoes, his coals dug out of the earth or brought by sea, his kitchen utensils and different plates, those that are employed in providing his bread and beer, the sower, the brewer, the reaper, the baker, his glass windows and the art required in preparing [them], without which our northern climate could hardly be inhabited. When we examine the conveniences of the day labourer, we find that even in his easy simple manner he cannot be accommodated without the assistance of a great number, and yet this is nothing compared with the luxury of the nobility. An European prince, however, does not so far exceed a commoner, as the latter does the chief of a savage nation. It is easy to conceive how the rich can be so well provided for, as they can direct so many hands to serve their purposes. They are supported by the industry of the peasant. In a savage nation every one enjoys the whole fruit of his own labour, yet their indigence is greater than anywhere.

It is the division of labour which increases the opulence of a country.

In a civilized society, though there is a division of labour, there is no equal division, for there are a good many who work none at all. The division of opulence is not according to the work. The opulence of the merchant is greater than that of all his clerks, though he works less; and they again have six times more than an equal number of artisans, who are more employed. The artisan who works at his ease within doors has far more than the poor labourer who trudges up and down without intermission. Thus, he who as it were bears the burden of society, has the fewest advantages.

**[§ 4. *How the Division of Labour multiplies the Product.*]**

We shall next show how this division of labour occasions a multiplication of the product, or, which is the same thing, how opulence arises from it. In order to this let us observe the effect of the division of labour in some manufactures. If all the parts of a pin were made by one man, if the same person dug the ore, [s]melted it, and split the wire, it would take him a whole year to make one pin, and this pin must therefore be sold at the expense of his maintenance for that time, which, taking [it] at a moderate computation, would at least be six pounds for a pin. If the labour is so far divided that the wire is ready-made, he will not make above twenty per day, which, allowing ten pence for wages, makes the pin a half-penny. The pin-maker therefore divides the labour among a great number of different persons; the cutting, pointing, heading, and gilding are all separate professions. Two or three are employed in making the head, one or two in putting it on, and so on, to the putting them in the paper, being in all eighteen. By this division every one can with great ease make 2000 a day. The same is the case in the linen and woollen

manufactures. Some arts, however, there are which will not admit of this division, and therefore they cannot keep pace with other manufactures and arts. Such are farming and grazing. This is entirely owing to the return of the seasons, by which one man can only be for a short time employed in any one operation. In countries where the season[s] do not make such alterations it is otherwise. In France the corn is better and cheaper than in England. But our toys, which have no dependence on the climate, and in which labour can be divided, are far superior to those of France.

When labour is thus divided, and so much done by one man in proportion, the surplus above their maintenance is considerable, which each man can exchange for a fourth of what he could have done if he had finished it alone. By this means the commodity becomes far cheaper, and the labour dearer. It is to be observed that the price of labour by no means determines the opulence of society; it is only when a little labour can procure abundance. On this account a rich nation, when its manufactures are greatly improved, may have an advantage over a poor one by underselling it. The cotton and other commodities from China would undersell any made with us, were it not for the long carriage, and other taxes that are laid upon them. We must not judge of the dearness of labour by the money or coin that is paid for it. One penny in some places will purchase as much as eighteenpence in others. In the country of the Mogul, where the day's wages are only twopence, labour is better rewarded than in some of our sugar islands, where men are almost starving with four or five shillings a day. Coin, therefore, can be no proper estimate. Further, though human labour be employed both in the multiplication of commodities and of money, yet the chance of success is not equal. A farmer, by the proper cultivation of an acre, is sure of increase; but the miner may work again and again without success. Commodities must therefore multiply in greater proportion than gold and silver.

But again, the quantity of work which is done by the division of labour is much increased by the three following articles: first, increase of dexterity; secondly, the saving of time lost in passing from one species of labour to another; and thirdly, the invention of machinery. Of these in order:

First, when any kind of labour is reduced to a simple operation, a frequency of action insensibly fits men to a dexterity in accomplishing it. A country smith not accustomed to make nails will work very hard for three or four hundred a day, and those too very bad; but a boy used to it will easily make two thousand, and those incomparably better; yet the improvement of dexterity in this very complex manufacture can never be equal to that in others. A nail-maker changes postures, blows the bellows, changes tools, &c., and therefore the quantity produced cannot be so great as in manufactures of pins and buttons, where the work is reduced to simple operations.

Secondly, there is always some time lost in passing from one species of labour

to another, even when they are pretty much connected. When a person has been reading he must rest a little before he begin to write. This is still more the case with the country weaver, who is possessed of a little farm; he must saunter a little when he goes from one to the other. This in general is the case with the country labourers, they are always the greatest saunterers; the country employments of sowing, reaping, threshing being so different, they naturally acquire a habit of indolence, and are seldom very dexterous. By fixing every man to his own operation, and preventing the shifting from one piece of labour to another, the quantity of work must be greatly increased.

Thirdly, the quantity of work is greatly increased by the invention of machines. Two men and three horses will do more in a day with the plough than twenty men without it. The miller and his servant will do more with the water miln than a dozen with the hand miln, though it, too, be a machine. The division of labour no doubt first gave occasion to the invention of machines. If a man's business in life is the performance of two or three things, the bent of his mind will be to find out the cleverest way of doing it; but when the force of his mind is divided it cannot be expected that he should be so successful. We have not, nor cannot have, any complete history of the invention of machines, because most of them are at first imperfect, and receive gradual improvements and increase of powers from those who use them. It was probably a farmer who made the original plough, though the improvements might be owing to some other. Some miserable slave who had perhaps been employed for a long time in grinding corn between two stones, probably first found out the method of supporting the upper stone by a spindle. A miln-wright perhaps found out the way of turning the spindle with the hand, but he who contrived that the outer wheel should go by water was a philosopher, whose business it is to do nothing, but observe everything. They must have extensive views of things, who, as in this case, bring in the assistance of new powers not formerly applied. Whether he was an artisan, or whatever he was who first executed this, he must have been a philosopher. Fire machines, wind and water-milns were the invention of philosophers, whose dexterity too is increased by a division of labour. They all divide themselves, according to the different branches, into the mechanical, moral, political, chemical philosophers.

Thus we have shown how the quantity of labour is increased by machines.

**[§ 5. *What gives Occasion to the Division of Labour.*]**

We have already shown that the division of labour is the immediate cause of opulence; we shall next consider what gives occasion to the division of labour, or from what principles in our nature it can best be accounted for. We cannot imagine this to be an effect of human prudence. It was indeed made a law by

Sesostris that every man should follow the employment of his father, but this is by no means suitable to the dispositions of human nature, and can never long take place; every one is fond of being a gentleman, be his father what he would. They who are strongest and, in the bustle of society, have got above the weak, must have as many under as to defend them in their station. From necessary causes, therefore, there must be as many in the lower stations as there is occasion for, there must be as many up as down, and no division can be overstretched. But it is not this which gives occasion to the division of labour; it flows from a direct propensity in human nature for one man to barter with another, which is common to all men, and known to no other animal. Nobody ever saw a dog, the most sagacious animal, exchange a bone with his companion for another. Two greyhounds, indeed, in running down a hare, seem to have something like compact or agreement betwixt them, but this is nothing else but a concurrence of the same passions. If an animal intends to truck, as it were, or gain anything from man, it is by its fondness and kindness. Man, in the same manner, works on the self love of his fellows, by setting before them a sufficient temptation to get what he wants. The language of this disposition is, 'Give me what I want, and you shall have what you want.' It is not from benevolence, as the dogs, but from self love that man expects anything. The brewer and the baker serve us not from benevolence, but from self love. No man but a beggar depends on benevolence, and even they would die in a week were their entire dependence upon it.

By this disposition to barter and exchange the surplus of one's labour for that of other people, in a nation of hunters, if any one has a talent for making bows and arrows better than his neighbours, he will at first make presents of them, and in return get presents of their game. By continuing this practice he will live better than before, and will have no occasion to provide for himself, as the surplus of his own labour does it more effectually.

This disposition to barter is by no means founded upon different genius and talents. It is doubtful if there be any such difference at all, at least it is far less than we are aware of. Genius is more the effect of the division of labour than the latter is of it. The difference between a porter and a philosopher in the first four or five years of their life is, properly speaking, none at all. When they come to be employed in different occupations, their views widen and differ by degrees. As every one has this natural disposition to truck and barter, by which he provides for himself, there is no need for such different endowments; and accordingly, among savages there is always the greatest uniformity of character. In other animals of the same species we find a much greater difference than betwixt the philosopher and porter, antecedent to custom. The mastiff and spaniel have quite different powers, but though these animals are possessed of talents they cannot, as it were, bring them into the common stock and exchange their productions, and therefore their

different talents are of no use to them. It is quite otherwise among mankind; they can exchange their several productions according to their quantity or quality; the philosopher and the porter are both of advantage to each other. The porter is of use in carrying burdens for the philosopher, and in his turn he burns his coals cheaper by the philosopher's invention of the fire machine.

Thus we have shown that different genius is not the foundation of this disposition to barter which is the cause of the division of labour. The real foundation of it is that principle to persuade which so much prevails in human nature. When any arguments are offered to persuade, it is always expected that they should have their proper effect. If a person asserts anything about the moon, though it should not be true, he will feel a kind of uneasiness in being contradicted, and would be very glad that the person he is endeavouring to persuade should be of the same way of thinking with himself. We ought then mainly to cultivate the power of persuasion, and indeed we do so without intending it. Since a whole life is spent in the exercise of it, a ready method of bargaining with each other must undoubtedly be attained. As was before observed, no animal can do this but by gaining the favour of those whom they would persuade. Sometimes, indeed, animals seem to act in concert, but there never is anything like bargain among them. Monkeys, when they rob a garden, throw the fruit from one to another, till they deposit it in the hoard, but there is always a scramble about the division of the booty, and usually some of them are killed.

**[§ 6. *That the Division of Labour must be proportioned to the Extent of Commerce.*]**

From all that has been said we may observe that the division of labour must always be proportioned to the extent of commerce. If ten people only want a certain commodity, the manufacture of it will never be so divided as if a thousand wanted it. Again, the division of labour, in order to opulence, becomes always more perfect by the easy method of conveyance in a country. If the road be infested with robbers, if it be deep and conveyance not easy, the progress of commerce must be stopped. Since the mending of roads in England forty or fifty years ago, its opulence has increased extremely. Water carriage is another convenience, as by it 300 ton can be conveyed at the expense of the tear and wear of the vessel, and the wages of five or six men, and that too in a shorter time than by a hundred wagons which will take six horses and a man each. Thus the division of labour is the great cause of the increase of public opulence, which is always proportioned to the industry of the people, and not to the quantity of gold and silver, as is foolishly imagined, and the industry of the people is always proportioned to the division of labour.

Having thus shown what gives occasion to public opulence, in farther considering this subject we propose to consider:

First, what circumstances regulate the price of commodities:

Secondly, money in two different views, first as the measure of value, and then as the instrument of commerce:

Thirdly, the history of commerce, in which shall be taken notice of the causes of the slow progress of opulence, both in ancient and modern times, which causes shall be shown either to affect agriculture or arts and manufactures:

Lastly, the effects of a commercial spirit, on the government, temper, and manners of a people, whether good or bad, and the proper remedies. Of these in order.

**[§ 7. *What Circumstances regulate the Price of Commodities.*]**

Of every commodity there are two different prices, which though apparently independent, will be found to have a necessary connexion, viz. the natural price and the market price. Both of these are regulated by certain circumstances. When men are induced to a certain species of industry, rather than any other, they must make as much by the employment as will maintain them while they are employed. An arrow-maker must be sure to exchange as much surplus product as will maintain him during as long time as he took to make them. But upon this principle in the different trades there must be a considerable difference, because some trades, such as those of the tailor and weaver, are not learned by casual observation and a little experience, like that of the day-labourer, but take a great deal of time and pains before they are acquired. When a person begins them, for a considerable time his work is of no use to his master or any other person, and therefore his master must be compensated, both for what maintains him and for what he spoils. When he comes to exercise his trade, he must be repaid what he has laid out, both of expenses and of apprentice fee, and as his life is not worth above ten or twelve years' purchase at most, his wages must be high on account of the risk he runs of not having the whole made up. But again, there are many arts which require more extensive knowledge than is to be got during the time of an apprenticeship. A blacksmith and weaver may learn their business well enough without any previous knowledge of mathematics, but a watchmaker must be acquainted with several sciences in order to undertake his business well, such as arithmetic, geometry, and astronomy with regard to the equation of time, and their wages must be high in order to compensate the additional expense. In general, this is the case in all the liberal arts, because after they have spent a long time in their education, it is ten to one if ever they make anything by it. Their wages therefore must be higher in proportion to the expense they have been at, the risk of not living long enough,

and the risk of not having dexterity enough to manage their business. Among the lawyers there is not one among twenty that attains such knowledge and dexterity in his business as enables him to get back the expenses of his education, and many of them never make the price of their gown, as we say. The fees of lawyers are so far from being extravagant, as they are generally thought, that they are rather low in proportion. It is the eminence of the profession, and not the money made by it, that is the temptation for applying to it, and the dignity of that rank is to be considered as a part of what is made by it.

In the same manner we shall find that the price of gold and silver is not extravagant, if we consider it in this view, for in a gold or silver mine there is a great chance of missing it altogether. If we suppose an equal number of men employed in raising corn and digging silver, the former will make more than the latter, because perhaps of forty or fifty employed in a mine, only twenty make anything at all. Some of the rest may indeed make fortunes, but every corn man succeeds in his undertakings, so that upon the whole there is more made this way than the other. It is the ideal acquisition which is the principal temptation in a mine.

A man then has the natural price of his labour, when it is sufficient to maintain him during the time of labour, to defray the expense of education, and to compensate the risk of not living long enough, and of not succeeding in the business. When a man has this, there is sufficient encouragement to the labourer, and the commodity will be cultivated in proportion to the demand.

The market price of goods is regulated by quite other circumstances. When a buyer comes to the market, he never asks of the seller what expenses he has been at in producing them. The regulation of the market price of goods depends on the three following articles:—

First, the demand, or need for the commodity. There is no demand for a thing of little use; it is not a rational object of desire.

Secondly, the abundance or scarcity of the commodity in proportion to the need of it. If the commodity be scarce, the price is raised, but if the quantity be more than is sufficient to supply the demand, the price falls. Thus it is that diamonds and other precious stones are dear, while iron, which is much more useful, is so many times cheaper, though this depends principally on the last cause, viz.:—

Thirdly, the riches or poverty of those who demand. When there is not enough produced to serve everybody, the fortune of the bidders is the only regulation of the price. The story which is told of the merchant and the carrier in the deserts of Arabia is an evidence of this. The merchant gave 10,000 ducats for a certain quantity of water. His fortune here regulated the price, for if he had not had them, he could not have given them, and if his fortune had been less, the water would have been cheaper. When the commodity is scarce, the seller must be content with that degree of wealth which they have who buy it. The case is much

the same as in an auction. If two persons have an equal fondness for a book, he whose fortune is largest will carry it. Hence things that are very rare go always to rich countries. The King of France only could purchase that large diamond of so many thousand pounds value. Upon this principle, everything is dearer or cheaper according as it is the purchase of a higher or lower set of people. Utensils of gold are comeatable only by persons in certain circumstances. Those of silver fall to another set of people, and their prices are regulated by what the majority can give. The prices of corn and beer are regulated by what all the world can give, and on this account the wages of the day-labourer have a great influence upon the price of corn. When the price of corn rises, wages rise also, and *vice versa*; when the quantity of corn falls short, as in a sea-voyage, it always occasions a famine, and then the price becomes enormous. Corn then becomes the purchase of a higher set of people, and the lower must live on turnips and potatoes.

Thus we have considered the two prices, the natural and the market price, which every commodity is supposed to have. We observed before that however seemingly independent they appear to be, they are necessarily connected. This will appear from the following considerations. If the market price of any commodity is very great, and the labour very highly rewarded, the market is prodigiously crowded with it, greater quantities of it are produced, and it can be sold to the inferior ranks of people. If for every ten diamonds there were ten thousand, they would become the purchase of everybody, because they would become very cheap, and would sink to their natural price. Again, when the market is overstocked, and there is not enough got for the labour of the manufacture, nobody will bind to it, they cannot have a subsistence by it, because the market price falls then below the natural price. It is alleged that as the price of corn sink[s], the wages of the labourer should sink, as he is then better rewarded. It is true that if provisions were long cheap, as more people would flock to this labour where the wages are high, through this concurrence of labour, the wages would come down, but we find that when the price of corn is doubled, the wages continue the same as before, because the labourers have no other way to turn themselves. The same is the case with menial servants.

From the above we may observe that whatever police tends to raise the market price above the natural, tends to diminish public opulence. Dearness and scarcity are in effect the same thing. When commodities are in abundance, they can be sold to the inferior ranks of people, who can afford to give less for them, but not if they are scarce. So far, therefore, as goods are a conveniency to the society, the society lives less happy when only the few can possess them. Whatever therefore keeps goods above their natural price for a permanency, diminishes [a] nation's opulence. Such are

First, all taxes upon industry, upon leather, and upon shoes, which people

grudge most, upon salt, beer, or whatever is the strong drink of the country, for no country wants some kind of it. Man is an anxious animal, and must have his care swept off by something that can exhilarate the spirits. It is alleged that this tax upon beer is an artificial security against drunkenness, but if we attend to it, [we will find] that it by no means prevents it. In countries where strong liquors are cheap, as in France and Spain, the people are generally sober, but in northern countries, where they are dear, they do not get drunk with beer, but with spirituous liquors; nobody presses his friend to a glass of beer, unless he choose it.

Secondly, monopolies also destroy public opulence. The price of the monopolized goods is raised above what is sufficient for encouraging the labour. When only a certain person or persons have the liberty of importing a commodity, there is less of it imported than would otherwise be; the price of it is therefore higher, and fewer people supported by it. It is the concurrence of different labourers which always brings down the price. In monopolies, such as the Hudson's Bay and East India companies, the people engaged in them make the price what they please.

Thirdly, exclusive privileges of corporations have the same effect. The butchers and bakers raise the price of their goods as they please, because none but their own corporation is allowed to sell in the market, and therefore their meat must be taken, whether good or not. On this account there is always required a magistrate to fix the prices. For any free commodity, such as broad cloth, there is no occasion for this, but it is necessary with bakers, who may agree among themselves to make the quantity and price what they please. Even a magistrate is not a good enough expedient for this, as he must always settle the price at the outside, else the remedy must be worse than the disease, for nobody would apply to these businesses, and a famine would ensue. On this account bakers and brewers have always profitable trades.

As what raises the market price above the natural one diminishes public opulence, so what brings it down below it has the same effect.

It is only upon manufactures to be exported that this can usually be done by any law or regulation, such as the bounty allowed by the government upon coarse linen, by which it becomes exportable, when under twelve pence a yard. The public paying a great part of the price, it can be sold cheaper to foreigners than what is sufficient for encouraging the labour. In the same manner, by the bounty of five shillings upon the quarter of corn when sold under forty shillings, as the public pays an eighth part of the price, it can be sold just so much cheaper at a foreign market. By this bounty the commodity is rendered more comeatable, and a greater quantity of it produced, but then it breaks what may be called the natural balance of industry. The disposition to apply to the production of that commodity is not proportioned to the natural cause of the demand, but to both that and the annexed bounty. It has

not only this effect with regard to the particular commodity, but likewise people are called from other productions which are less encouraged, and thus the balance of industry is broken.

Again, after the ages of hunting and fishing, in which provisions were the immediate produce of their labour, when manufactures were introduced, nothing could be produced without a great deal of time. It was a long time before the weaver could carry to the market the cloth which he bought in flax. Every trade therefore requires a stock of food, clothes, and lodging to carry it on. Suppose then, as is really the case in every country, that there is in store a stock of food, clothes, and lodging, the number of people that are employed must be in proportion to it. If the price of one commodity is sunk below its natural price, while another is above it, there is a smaller quantity of the stored stock left to support the whole. On account of the natural connexion of all trades in the stock, by allowing bounties to one you take away the stock from the rest. This has been the real consequence of the corn bounty.

The price of corn being sunk, the rent of the farms sinks also, yet the bounty upon corn, which was laid on at the time of the taxes, was intended to raise the rent, and had the effect for some time, because the tenants were assured of a price for their corn, both at home and abroad. But though the effects of the bounty encouraging agriculture brought down the price of corn, yet it raised the grass farms, for the more corn the less grass. The price of grass being raised, butchers' meat, in consequence of its dependence upon it, must be raised also, so that if the price of corn is diminished, the price of other commodities is necessarily raised. The price of corn has indeed fallen from forty-two to thirty-five, but the price of hay has risen from twenty-five to near fifty shillings. As the price of hay has risen, horses are not so easily kept, and therefore the price of carriage has risen also. But whatever increases the price of carriage diminishes plenty in the market. Upon the whole, therefore, it is by far the best police to leave things to their natural course, and allow no bounties, nor impose taxes on commodities.

Thus we have shown what circumstances regulate the price of commodities, which was the first thing proposed.

### [§ 8. *Of Money as the Measure of Value and Medium of Exchange.*]

We come now to the second particular, to consider money, first as the measure of value and then as the medium of permutation or exchange. When people deal in many species of goods, one of them must be considered as the measure of value. Suppose there were only three commodities, sheep, corn, and oxen, we can easily remember them comparatively, but if we have a hundred different commodities, there are ninety-nine values of each arising from a comparison

with each of the rest. As these cannot easily be remembered, men naturally fall upon one of them to be a common standard with which they compare all the rest. This will naturally at first be the commodity with which they are best acquainted. Accordingly we find that black cattle and sheep were the standard in Homer's time. The armour of one of his heroes was worth nine oxen, and that of another worth an hundred. Black cattle was the common standard in ancient Greece. In Italy, and particularly in Tuscany, everything was compared with sheep, as this was their principal commodity. This is what may be called the natural measure of value. In like manner there were natural measures of quantity, such as fathoms, cubits, inches, taken from the proportion of the human body, once in use with every nation. But by a little observation they found that one man's arm was longer or shorter than another's, and that one was not to be compared with the other, and therefore wise men who attended to these things would endeavour to fix upon some more accurate measure, that equal quantities might be of equal values. This method became absolutely necessary when people came to deal in many commodities, and in great quantities of them. Though an inch was altogether inconsiderable when their dealings were confined to a few yards, more accuracy was required when they came to deal in some thousands. We find, in countries where their dealings are small, the remains of this inaccuracy. The cast of the balance is nothing thought of in their coarse commodities.

Since, then, there must of necessity be a common standard of which equal quantities should be of equal values, metals in general seemed best to answer this purpose, and of these the value of gold and silver could best be ascertained. The temper of steel cannot be precisely known, but what degree of alloy is in gold and silver can be exactly found out. Gold and silver were therefore fixed upon as the most exact standard to compare goods with, and were therefore considered as the most proper measure of value.

In consequence of gold and silver becoming the measure of value, it came also to be the instrument of commerce. It soon became necessary that goods should be carried to market, and they could never be cleverly exchanged unless the measure of value was also the instrument of commerce. In the age of shepherds it might be no great inconvenience that cattle should be the medium of exchange, as the expense of maintaining them was nothing, the whole country being considered as one great common; but when lands came to be divided, and the division of labour introduced, this custom would be productive of very considerable inconveniences. The butcher and shoemaker might at times have no use for one another's commodities. The farmer very often cannot maintain upon his ground a cow more than he has. It would be a very great hardship on a Glasgow merchant to give him a cow for one of his commodities. To remedy this, those materials which were before considered as the measure of value, came also to be the instrument of

exchange. Gold and silver had all advantages. They can be kept without expense, they do not waste, and they are very portable. Gold and silver, however, do not derive their whole utility from being the medium of exchange; though they never had been used as money, they are more valuable than any other metals. They have a superior beauty, are capable of a finer polish, and are more proper for making any instrument, except those with an edge. For all these reasons, gold and silver came to be the proper measure of value, and the instrument of exchange; but in order to render them more proper for these purposes, it was necessary that both their weight and their fineness should be ascertained. At first their balances were not very accurate, and therefore frauds were easily committed. However, this was remedied by degrees; but common business would not allow of the experiments which are necessary to fix precisely the degree of fineness. Though with a great quantity of alloy, they are to appearance good. It was necessary therefore, to facilitate exchange, that they should fall upon some expedient to ascertain with accuracy both weight and fineness. Coinage most effectually secures both these. The public, finding how much it would tend to facilitate commerce, put a stamp upon certain pieces that whoever saw them might have the public faith that they were of a certain weight and fineness; and this would be what was at first marked upon the coin, as being of most importance.

Accordingly, the coins of every country appear to have borne the names of the weights corresponding to them, and they contained the denomination they expressed. The British pound sterling seems originally to have been a pound weight of pure silver.

As gold could be easily exchanged into silver, the latter came always to be the standard or measure of value. As there cannot be two standards, and in the greater part of purchases silver is necessary, we never say a man is worth so many guineas, but always pounds.

It is to be observed that the measure of quantity has always increased, while that of value has decreased. The British pound has now decreased to less than a third of its original value, which was sixty-three shillings, while the measure of quantity has considerably increased. The reason is that the interest of the government requires this. It is the interest of the baker and the brewer to make the measure of quantity as little as possible; and therefore there are inspectors appointed who, when it is brought down, always settle it a little farther up. All our measures, which were taken from the Roman foot, fathom, and inch, are now a great deal more. In like manner what was called Troy weight, from Troy, a town in Champagne, where then the greatest commerce was carried on, gave rise to a heavier weight, because there was usually given the cast of the balance along with it, and as this rendered dealings inaccurate, it was necessary that this cast of the balance should be determined. Accordingly, *averdupois* (*avoir du poise*), or heavy

weight, was settled at thirteen ounces; but as this was a number not easily divided, it was settled at sixteen, the ounces being made proportioned to it.

Thus the measure of quantity has been increasing; we shall next show how the coin decreased. When the government takes the coinage into its own hands, the expenses naturally fall upon it, and if any private man coins, he must lessen the value or have nothing but his labour for his pains; and besides, as no man's authority can be so great as to make his coin pass in common payments, he must forge the stamp of the government. As the government took the task upon themselves, they would endeavour, in order to prevent frauds, to prevent counterfeiting the king's coin, and encroaching on his prerogative; besides, as the public faith was engaged, it was necessary to prevent all kinds of fraud, because it was likewise necessary that people should be obliged to receive the coin according to its denomination, and that if any refused it after a legal tender of payment was made, the debtor should be free, and the creditor guilty of felony. In rude and barbarous periods the government was laid under many temptations to debase the coin, or, according to the mint language, to raise it; when, for instance, on any important occasion, such as paying of debts, or of soldiers, it has occasion for two millions, but has no more than one, it calls in the coin of the country, and, mixing with it a greater quantity of alloy, makes it come out two millions, as like as possible to what it was before. Many operations of this kind have been performed in every country; but England, from the freedom which it has almost uninterruptedly enjoyed, has been less troubled with this than any other nation. There it has only fallen to one-third, but in many other countries it is not a fiftieth of its original value.

The inconveniences of such practices are very great. The debasement of the coin hinders commerce, or, at least, greatly embarrasses it. A new calculation must be made how much of the new coin must be given for so much of the old. People are disposed to keep their goods from the market, as they know not what they will get for them. Thus, a stagnation of commerce is occasioned; besides, the debasing of the coin takes away the public faith. Nobody will lend any sum to the government, or bargain with it, as he perhaps may be paid with one half of it. As there is a fraud committed by the government, every subject must be allowed to do the same, and pay his debts with the new money, which is less than he owed. This scheme, however, serves the purpose for some small time, on the following account. The use of money is twofold: for the payment of debts, and the purchasing of commodities. When the coin is debased, a debt of twenty shillings is then paid with ten; but if the new coin be carried to a foreign market, it will give nothing but the old value. All day-labourers are paid in the new coin. The necessities of life must be sold at what the greater part of people can give, and consequently their price will for some time be diminished. However, the king himself loses much, though he gains in the meantime. His doubling it is no doubt a present advantage, but it

necessarily diminishes his revenue, because all his taxes are paid in the new coin. To prevent this loss the French, and indeed all other nations on a like occasion, when they double the money by edict without re-coinage, make the augmentation after the money is called in, and before it goes out, and a diminution is made before next term of payment. A diminution has always a worse effect than an augmentation. An augmentation injures the creditor, a diminution the debtor, who should always be favoured. If I bind for ten pounds and be obliged to pay fifteen, common industry must be excessively embarrassed.

The coins of most countries are either of copper, silver, or gold. We are obliged even to receive payment in sixpences, which sometimes is the occasion of confusion and loss of time. The different coins are regulated, not by the caprice of the government, but by the market price of gold and silver, and according to this the proportion of gold and silver [is] settled. This proportion sometimes varies a little. The guineas some time ago were valued at twenty-two shillings, and at other times they have been at twenty. The gold rises more in proportion in Britain than anywhere else, and as it makes the silver of somewhat less value it is the cause of a real inconvenience. As silver buys more gold abroad than at home, by sending abroad silver they bring gold in return, which buys more silver here than it does abroad. By this means a kind of trade is made of it, the gold coin increasing and the silver diminishing. Some time ago a proposal was given in to remedy this, but it was thought so complex a case that they resolved for that time not to meddle with it.

**[§ 9. *That National Opulence does not consist in Money.*]**

We have shown what rendered money the measure of value, but it is to be observed that labour, not money, is the true measure of value. National opulence consists therefore in the quantity of goods, and the facility of barter. This shall be next considered.

The more money that is necessary to circulate the goods of any country, the more is the quantity of goods diminished. Suppose that the whole stock of Scotland in corn, cattle, money, &c. amounts to twenty millions, and if one million in cash is necessary to carry on the circulation, there will be in the country only nineteen millions of food, clothes, and lodging, and the people have less by one million than they would have if there were no occasion for this expedient of money. It is therefore evident that the poverty of any country increases as the money increases, money being a dead stock in itself, supplying no convenience of life. Money in this respect may be compared to the high roads of a country, which bear neither corn nor grass themselves, but circulate all the corn and grass in the country. If we could find any way to save the ground taken up by highways, we would increase considerably the quantity of commodities, and have more to carry to the market.

In the same manner as [the worth of] a piece of ground does not lie in the number of highways that run through it, so the riches of a country does not consist in the quantity of money employed to circulate commerce, but in the great abundance of the necessaries of life. If we could therefore fall on a method to send the half of our money abroad to be converted into goods, and at the same time supply the channel of circulation at home, we would greatly increase the wealth of the country.

Hence the beneficial effects of the erection of banks and paper credit. It is easy to show that the erection of banks is of advantage to the commerce of a country. Suppose as above that the whole stock of Scotland amounted to twenty millions, and that two millions are employed in the circulation of it, [and] the other eighteen are in commodities. If then the banks in Scotland issued out notes to the value of two millions, and reserved among them £300,000 to answer immediate demands, there would be one million seven hundred thousand pounds circulating in cash, and two millions of paper money besides. The natural circulation however is two million and the channel will receive no more. What is over will be sent abroad to bring home materials for food, clothes, and lodging. That this has a tendency to enrich a nation may be seen at first sight, for whatever commodities are imported, just so much is added to the opulence of the country. The only objection against paper money is that it drains the country of gold and silver, that bank notes will not circulate in a foreign market, and that foreign commodities must be paid in specie. This is no doubt the case; but if we consider attentively we will find that this is no real hurt to a country. The opulence of a nation does not consist in the quantity of coin, but in the abundance of commodities which are necessary for life, and whatever tends to increase these tends so far to increase the riches of a country.

Money is fit for none of the necessaries of life. It cannot of itself afford either food, clothes, or lodging, but must be exchanged for commodities fit for these purposes. If all the coin of the nation were exported, and our commodities proportionably increased, it might be recalled on any sudden emergency sooner than anyone could well imagine. Goods will always bring in money, and as long as the stock of commodities in any nation increases, they have it in their power to augment the quantity of coin, if thought necessary, by exporting their stock to foreign countries. This reasoning is confirmed by matter of fact. We find that the commerce of every nation in Europe has been prodigiously increased by the erection of banks. In this country everybody is sensible of their good effects, and our American colonies, where most of the commerce is carried on by paper circulation, are in a most flourishing condition.

What first gave occasion to the establishment of banks was to facilitate the transference of money. This at this day is the only design of the bank at Amsterdam. When commerce is carried to a high pitch, the delivery of gold and silver consumes a great deal of time. When a great merchant had ten or twenty thousand pounds to

give away, he would take almost a week to count it out in guineas and shillings. A bank bill prevents all this trouble. Before the erection of the bank at Amsterdam, the method the merchants fell upon to lessen the trouble of counting out great quantities of cash, was to keep certain sums put up in bags to answer immediate demands. In this case you must either trust the honesty of the merchant, or you must take the trouble of counting it over. If you trusted his fidelity, frequent frauds would be committed, if not, your trouble was not lessened. The inconveniences arising from this gave occasion to the erection of that bank, of which the whole transaction is this: you deposit a certain sum of money there, and the bank gives you a bill to that extent. This money is secure, and you never call for it, because the bill will generally sell above par, and it is therefore an advantage to yourself to let it lie; the bank has no office for payment, because there is seldom any payment demanded. In this manner the bank of Amsterdam has a good effect in facilitating commerce, and its notes circulate only there; the credit of that city is not in the least endangered by the bank. In 1701, when the French army was at Utrecht, a sudden demand was made upon it, and all Holland was alarmed with the expected fatal consequences, but no danger ensued. Before this a suspicion prevailed that the bankers had fallen into a custom of trading with the money, but at that time it was found that a great quantity of the money had been scorched by a fire that happened in the neighbourhood about fifty years before that. This plainly showed that there was no ground for the suspicion, and the credit of the bank remained unhurt. It has been affirmed by some that the bank of Amsterdam has always money in its stores to the amount of eighty or ninety millions; but this has lately been shown by an ingenious gentleman to be false, from a comparison of the trade of London and Amsterdam.

The constitution of the banks in Britain differs widely from that in Amsterdam. Here there is only about a sixth part of the stock kept in readiness for answering demands, and the rest is employed in trade. Originally they were on the same footing with the Amsterdam bank, but the directors taking liberty to send out money, they gradually came to their present situation. The ruin of a bank would not be so dangerous as is commonly imagined. Suppose all the money in Scotland was issued by one bank, and that it became bankrupt, a very few individuals would be ruined by it, but not many; because the quantity of cash or paper that people have in their hands bears no proportion to their wealth. Neither would the wealth of the whole country be much hurt by it, because the hundredth part of the riches of a country does not consist in money. The only method to prevent the bad consequence arising from the ruin of banks, is to give monopolies to none, but to encourage the erection of as many as possible. When several are established in a country, a mutual jealousy prevails, they are continually making unexpected runs on one another. This puts them on their guard and obliges them to provide themselves

against such demands. Was there but one bank in Scotland it would perhaps be a little more enterprising, as it would have no rival, and by mismanagement might become bankrupt; but a number puts this beyond all danger: even though one did break, every individual [would] have very few of its notes. From all these considerations it is manifest that banks are beneficial to the commerce of a country, and that it is a bad police to restrain them.

*{Here we have omitted five paragraphs of the text, in which Smith discusses several authors on the topics of money, prices, and international trade.}*

Upon the whole we may observe on this subject, that the reason why our riches do not consist in money but commodities is, that money cannot be used for any of the purposes of life, but that commodities are fitted for our subsistence. The consumptibility, if we may use the word, of goods, is the great cause of human industry, and an industrious people will always produce more than they consume. It is easy to show how small a proportion the cash in every country bears to the public opulence. It is generally supposed that there are thirty millions of money circulating in Britain, but the annual consumption amounts to much more than a hundred millions, for, computing the inhabitants of the island at ten millions, and allowing ten pounds per annum for the subsistence of each person, which is by much too little, the whole annual consumption amounts to that sum. So it appears that the circulating cash bears but a small proportion to the whole opulence of the country. It is probable, however, that there are not thirty millions in Britain, and in that case the proportion will be still less.

It is said by some who support the notion that the riches of a country consists in money, that when a person retires from trade he turns his stock immediately into cash. It is plain, however, that the reason of this is that as money is the instrument of commerce, a man can change it for the necessaries and elegancies of life more easily than anything else. Even the miser who locks up his gold in his chest has this end in view. No man in his senses hoards up money for its own sake, but he considers that by keeping money always by him, he has it in his power to supply at once all the necessities of himself and his family.

This opinion that riches consist in money, as it is absurd in speculation, so it has given occasion to many prejudicial errors in practice, some of which are the following.

### **[§ 10. *Of Prohibiting the Exportation of Coin.*]**

It was owing to these tenets that the government prohibited the exportation of coin, which prohibition has been extremely hurtful to the commerce of the country, because whatever quantity of money there is in any country above what is

sufficient for the circulation is merely a dead stock.

In King William's time there were two species of coin, milled and unmilled. The unmilled was frequently clipped by different persons in its circulation. This occasioned frequent disorders among the people, and therefore the parliament ordered all the clipped money to be brought into the mint, and the government was at the expense of recoinng it, which operation cost them about two millions. As they had been at this expense, they thought it just and proper to prohibit the exportation of money for the future. The merchants, however, complained of this hardship, and were then allowed to export money to a small extent. The great complaint, however, was always scarcity of money. In order to remedy this, the government established a common office for coining money where every one might get their gold and silver turned into coin without any expense. The consequence of this was that as coin was of no more value than bullion, a great deal of coin was melted down and exported. To prevent this it was rendered felony to melt coin; but it is so simple an operation, and so easily gone about, that the law was easily eluded. The immediate effect of this regulation was that more coin was exported than ever. This might have been easily prevented by fixing a certain price upon the coinage of bullion, or by ordaining the master of the mint to be paid by the persons who brought their money to be coined; but such a regulation was never thought of.

Any regulation of the above kind is very absurd, for there is no fear if things be left to their free course that any nation will want money sufficient for the circulation of their commodities, and every prohibition of exportation is always ineffectual, and very often occasions the exportation of more than otherwise would be. Suppose, for instance, the Portuguese prohibited from exporting their money by a capital punishment. As they have few goods to give in exchange for ours, their foreign trade must cease; or if they attempt to smuggle, the British merchant must lay such a price upon his goods as will be sufficient to reward him for the risk he runs of being detected, and the Portuguese merchant, being obliged to buy his goods too dear, must be a loser. In general, every prohibition of this kind hurts the commerce of a country. Every unnecessary accumulation of money is a dead stock which might be employed in enriching the nation by foreign commerce. It likewise raises the price of goods and makes the country undersold at foreign markets.

It is to be observed that prohibiting the exportation of money is really one great cause of the poverty of Spain and Portugal. When they got possession of the mines of Mexico and Peru, they thought they could command all Europe by the continual supplies which they received from thence, if they could keep the money among them, and therefore they prohibited the exportation of it. But this had a quite contrary effect, for when money is, as it were, dammed up to an unnatural height, and there is more than the circulation requires, the consequences are very

unfavourable to the country. For it is impossible that the exportation of gold and silver can be wholly stopped, as the balance of trade must be against them, that is, they must buy more than they sell, and it is indispensably necessary that this balance be paid in money. Every commodity rises to an extravagant height. The Portuguese pay for English cloth, additional to the natural price of it, the expense and risk of carrying it there, for nobody ever saw a Spanish or Portuguese ship in a British harbour. All the goods sent to those countries are carried by ourselves and consigned to the British factors, to be disposed of by them. But besides the carriage and insurance, the British merchant must be paid for the risk of having his money seized in Portugal, in consequence of the prohibition. All risk of forfeiture or penalty must lie upon the goods. This has a miserable effect upon the domestic industry of those countries, and has put a stop to their manufactures. Nobody ever saw a piece of Spanish cloth in any other country, yet they have the best materials in the world, and with the same art that we have, might monopolise the trade of Europe. It drew the attention of the nations who trade with them in these commodities, when a general, on a certain occasion, presented to his majesty the regiment of which he had the command clothed in the manufactures of Spain. In general they export no manufactured commodities, swords and armour excepted, as they have confessedly the best steel in the world, but only the spontaneous productions of the country, such as fruits and wines.

Regulations of a similar nature were made in Britain in King William's time. Money was thought to constitute opulence, and therefore the accumulation of it commanded the whole of the public attention. They coined all money brought in for nothing, and the expenses of coinage, which amounted to about £140,000, were entirely thrown away; and, besides, great encouragement was given to exportation, because, as gold and silver were coined for nothing, coined money could never be dearer than bullion. As the exportation of bullion was free, they melted down the coin and sent it abroad. At present there is a great temptation to such practices, for an oz. of pure silver at mint price is exactly valued at 5s. 2d., but bullion is often bought at 5s. 6d. As nothing is lost in melting, here is a profit of 4d. per oz. It is on this account that we seldom or never see a new shilling, and it is one of the causes that silver is so scarce in proportion to gold.

**[§ 11. *Of the Balance of Trade.*]**

The idea of public opulence consisting in money has been productive of other bad effects. Upon this principle most pernicious regulations have been established. Those species of commerce which drain us of our money are thought disadvantageous, and those which increase it beneficial, therefore the former are prohibited and the latter encouraged. As France is thought to produce more of the

elegancies of life than this country, and as we take much from them, and they need little from us, the balance of trade is against us, and therefore almost all our trade with France is prohibited by great taxes and duties on importation. On the other hand, as Spain and Portugal take more of our commodities than we of theirs, the balance is in our favours, and this trade is not only allowed, but encouraged. The absurdity of these regulations will appear on the least reflection. All commerce that is carried on betwixt any two countries must necessarily be advantageous to both. The very intention of commerce is to exchange your own commodities for others which you think will be more convenient for you. When two men trade between themselves it is undoubtedly for the advantage of both. The one has perhaps more of one species of commodities than he has occasion for, he therefore exchanges a certain quantity of it with the other, for another commodity that will be more useful to him. The other agrees to the bargain on the same account, and in this manner the mutual commerce is advantageous to both. The case is exactly the same betwixt any two nations. The goods which the English merchants want to import from France are certainly more valuable to them than what they give for them. Our very desire to purchase them shows that we have more use for them than either the money or the commodities which we give for them. It may be said indeed that money lasts for ever, but that claret and cambrics are soon consumed. This is true: but what is the intention of industry if it be not to produce those things which are capable of being used, and are conducive to the convenience and comfort of human life? Unless we use the produce of our industry, unless we can subsist more people in a better way, what avails it? Besides, if we have money to spend upon foreign commodities, what purpose serves it to keep it in the country? If the circulation of commodities require it, there will be none to spare; and if the channel of circulation be full, no more is necessary. And if only a certain sum be necessary for that purpose, why throw more into it?

Again, by prohibiting the exportation of goods to foreign markets, the industry of the country is greatly discouraged. It is a very great motive to industry, that people have it in their power to exchange the produce of their labour for what they please, and wherever there is any restraint on people in this respect, they will not be so vigorous in improving manufactures. If we be prohibited to send corn and cloth to France, that industry is stopped which raises corn and prepares cloth for the French market. It may be said indeed that if we were allowed to trade with France we would not exchange our commodities with theirs, but our money, and thus human industry is by no means discouraged; but if we attend to it, we shall find that it comes to the same thing at last. By hindering people to dispose of their money as they think proper, you discourage those manufactures by which this money is gained. All jealousies therefore between different nations, and prejudices of this kind, are extremely [hurtful] to commerce, and limit public opulence. This is

always the case betwixt France and us in the time of war.

In general we may observe that these jealousies and prohibitions are most hurtful to the richest nations, and that in proportion as a free commerce would be advantageous. When a rich man and a poor man deal with one another, both of them will increase their riches, if they deal prudently, but the rich man's stock will increase in a greater proportion than the poor man's. In like manner when a rich and a poor nation engage in trade, the rich nation will have the greatest advantage, and therefore the prohibition of this commerce is most hurtful to it of the two. All our trade with France is prohibited by the high duties imposed on every French commodity imported. It would, however, have been better police to encourage our trade with France. If any foreign commerce is to be prohibited, it ought to be that with Spain and Portugal. This would have been most advantageous to England. France is much more populous, a more extensive country, farther advanced in arts and manufactures of every kind, and the industry which a commerce with that country would have excited at home would have been much greater. Twenty millions of people perhaps in a great society, working as it were to one another's hands, from the nature of the division of labour before explained, would produce a thousand times more goods than another society consisting only of two or three millions. It were happy therefore, both for this country and for France, that all national prejudices were rooted out, and a free and uninterrupted commerce established.

It may be observed in general that we never heard of any nation ruined by this balance of trade. When Gee published his book, the balance with all nations was against us, except Spain and Portugal. It was then thought that in a few years we would be reduced to an absolute state of poverty. This indeed has been the cry of all political writers since the time of Charles II; notwithstanding all this, we find ourselves far richer than before, and, when there is occasion for it, we can raise much more money than ever has been done. A late minister of state levied in one year twenty-three millions with greater ease than Lord Godolphin could levy six in Queen Anne's time. The French and Dutch writers, embracing the same principle, frequently alarmed their country with the same groundless terror, but they still continue to flourish. It is to be observed that the poverty of a nation can never proceed from foreign trade if carried on with wisdom and prudence. The poverty of a nation proceeds from much the same causes with those which render an individual poor. When a man consumes more than he gains by his industry, he must impoverish himself unless he has some other way of subsistence. In the same manner, if a nation consume more than it produces, poverty is inevitable; if its annual produce be ninety millions and its annual consumption an hundred, then it spends, eats, and drinks, tears, wears, ten millions more than it produces, and its stock of opulence must gradually [go] to nothing.

[§ 12. *Of the Opinion that no Expense at Home can be hurtful.*]

There is still another bad effect proceeding from that absurd notion, that national opulence consists in money. It is commonly imagined that whatever people spend in their own country cannot diminish public opulence, if you take care of exports and imports. This is the foundation of Dr. Mandeville's system that private vices are public benefits: what is spent at home is all spent among ourselves, none of it goes out of the country. But it is evident that when any man tears, and wears, and spends his stock, without employing himself in any species of industry, the nation is at the end of the year so much the poorer by it. If he spend only the interest of the money he does no harm, as the capital still remains, and is employed in promoting industry, but if he spend the capital, the whole is gone. To illustrate this let us make a supposition, that my father at his death, instead of a thousand pounds in cash, leaves me the necessaries and conveniences of life to the same value, which is precisely the same as if he left it in money, because I afterwards purchase them in money. I get a number of idle folks about me and eat, drink, tear, and wear, till the whole is consumed. By this, I not only reduce myself to want, but certainly rob the public stock of a thousand pounds, as it is spent and nothing produced for it. As a farther illustration of the hurt which the public receives from such practices, let us suppose that this island was invaded by a numerous band of Tartars, a people who are still in the state of shepherds, a people who lead a roving life, and have little or no idea of industry. Here they would find all commodities for the taking, they would put on fine clothes, eat, drink, tear, and wear everything they laid their hands upon. The consequence would be that from the highest degree of opulence the whole country would be reduced to the lowest pitch of misery, and brought back to its ancient state. The thirty millions of money would probably remain for some time, but all the necessaries of life would be consumed. This shows the absurdity of that opinion that no home consumption can hurt the opulence of a country.

Upon this principle that no public expense employed at home can be hurtful, a war in Germany is thought a dreadful calamity, as it drains the country of money, and a land war is always thought more prejudicial than a sea one for the same reason; but upon reflection, we will find that it is the same thing to the nation, how or where its stock be spent. If I purchase a thousand pounds' worth of French wines, and drink them all when they come home, the country is two thousand pounds poorer, because both the goods and money are gone; if I spend a thousand pounds worth of goods at home upon myself the country is only deprived of one thousand pounds, as the money still remains; but in maintaining an army in a distant war it is the same thing whether we pay them in goods or money, because the consumption is the same at any rate. Perhaps it is the better police to pay them in

money, as goods are better fitted for the purposes of life at home. For the same reason there is no difference between land and sea wars, as is commonly imagined.

From the above considerations it appears that Britain should by all means be made a free port, that there should be no interruptions of any kind made to foreign trade, that if it were possible to defray the expenses of government by any other method, all duties, customs, and excise should be abolished, and that free commerce and liberty of exchange should be allowed with all nations, and for all things.

But still further, and on the same principles as above, an apology is made for the public debt. Say they, though we [owe] at present above a hundred millions, we owe it to ourselves, or at least very little of it to foreigners. It is just the right hand owing the left, and on the whole can be little or no disadvantage. But [it] is to be considered that the interest of this hundred millions is paid by industrious people, and given to support idle people who are employed in gathering it. Thus industry is taxed to support idleness. If the debt had not been contracted, by prudence and economy the nation would have been much richer than at present. Their industry would not be hurt by the oppression of those idle people who live upon it. Instead of the brewer paying taxes which are often improper, the stock might have been lent out to such industrious people as would have made six or seven per cent. by it, and have given better interest than the government does: this stock would then have been employed for the country[’s] welfare. When there are such heavy taxes to pay, every merchant must carry on less trade than he would otherwise do; he has his taxes to pay before he sell any of his commodities. This narrows, as it were, his stock, and hinders his trade from being so extensive as it otherwise would be. To stop this clamour, Sir Robert Walpole endeavoured to show that the public debt was no inconvenience, though it is to be supposed that a man of his abilities saw the contrary himself.

*{Here we have omitted § 13. Of the Scheme of Mr. Law }*

#### **[§ 14. *Of Interest.*]**

We have only two things further to mention relating to the price of commodities, to wit, interest and exchange.

It is commonly supposed that the premium of interest depends upon the value of gold and silver. The value of these are regulated by their quantity, for as the quantity increases, the value diminishes, and as the quantity decreases, the value rises. If we attend to it, however, we shall find that the premium of interest is regulated by the quantity of stock. About the time of the discovery of the West Indies it is to be observed that common interest was at 10 or 12 per cent, and since

that time it has gradually diminished. The plain reason is this. Under the feudal constitution there could be very little accumulation of stock, which will appear from considering the situation of those three orders of men, which made up the whole body of the people: the peasants, the landlords, and the merchants. The peasants had leases which depended upon the caprice of their masters; they could never increase in wealth, because the landlord was ready to squeeze it all from them, and therefore they had no motive to acquire it. As little could the landlords increase their wealth, as they lived so indolent a life, and were involved in perpetual wars. The merchants again were oppressed by all ranks, and were not able to secure the produce of their industry from rapine and violence. Thus there could be little accumulation of wealth at all; but after the fall of the feudal government these obstacles to industry were removed, and the stock of commodities began gradually to increase.

We may further observe that what one trade lends to another is not so much to be considered as money, as commodities. No doubt it is generally money which one man delivers another in loan, but then it is immediately turned into stock, and thus the quantity of stock enables you to make a greater number of loans. The price of interest is entirely regulated by this circumstance. If there be few who have it in their power to lend money, and a great number of people who want to borrow it, the price of interest must be high; but if the quantity of stock on hand be so great as to enable a great number to lend, it must fall proportionably.

### [§ 15. *Of Exchange.*]

Exchange is a method invented by merchants to facilitate the payment of money at a distance. Suppose I owe £100 to a merchant at London, I apply to a banker in Glasgow for a bill upon another merchant in London, payable to my creditor. For this I must not only give the banker £100, but I must also reward him for his trouble. This reward is called the price, or premium, of exchange. Between Glasgow and London it is sometimes at 2 per cent., sometimes more, sometimes less. Between London and Glasgow again it is sometimes 4 or 5 per cent. below par; and between Glasgow and the West India colonies it is often at 50 per cent. below par. The value of exchange is always regulated by the risk of sending money between two places. It is often, however, greater than the risk can be supposed to be, and this is owing to paper circulation. Between Glasgow and London one can easily get £100 carried for fifteen or sixteen shillings; but as paper in Scotland makes a great part of the currency, and as there is an inconveniency in getting bank notes exchanged for gold and silver, a merchant chooses rather to pay 2 per cent. than take the trouble of changing the notes for cash, and sending the money. This too is the cause of the high price of exchange between Virginia and Glasgow. In

the American colonies the currency is paper, and their notes are 40 or 50 per cent. below par, because the funds are not sufficient. In every exchange you must pay the price, the risk, some profit to the banker, and so much for the degradation of money in notes. This is the cause of the rise of exchange. Whenever it rises beyond the price of insurance it is owing to the money of one country being lower than that of another. This was the cause of the high price of exchange between France and Holland about the time of the Mississippi Company. It was then at 80 or 90 per cent. All the money had been expelled from France by the scheme of Mr. Law, and the whole circulation was paper, and the credit of the bank had fallen. All these reasons conspired to raise the exchange to such an enormous pitch.

**[§ 16. *Of the Causes of the slow Progress of Opulence.*]**

We come now to the next thing proposed, to examine the causes of the slow progress of opulence. When one considers the effects of the division of labour, what an immediate tendency it has to improve the arts, it appears somewhat surprising that every nation should continue so long in a poor and indigent state as we find it does. The causes of this may be considered under these two heads: first, natural impediments; and secondly, the oppression of civil government.

A rude and barbarous people are ignorant of the effects of the division of labour, and it is long before one person, by continually working at different things, can produce any more than is necessary for his daily subsistence. Before labour can be divided some accumulation of stock is necessary; a poor man with no stock can never begin a manufacture. Before a man can commence farmer, he must at least have laid in a year's provision, because he does not receive the fruits of his labour till the end of the season. Agreeably to this, in a nation of hunters or shepherds no person can quit the common trade in which he is employed, and which affords him daily subsistence, till he have some stock to maintain him, and begin the new trade. Every one knows how difficult it is, even in a refined society, to raise one's self to moderate circumstances. It is still more difficult to raise one's self by those trades which require no art nor ingenuity. A porter or day-labourer must continue poor for ever. In the beginnings of society this is still more difficult. Bare subsistence is almost all that a savage can procure, and having no stock to begin upon, nothing to maintain him but what is produced by the exertion of his own strength, it is no wonder he continues long in an indigent state. The meanest labourer in a polished society has in many respects an advantage over a savage: he has more assistance in his labour; he has only one particular thing to do, which, by assiduity, he attains a facility in performing; he has also machines and instruments which greatly assist him. An Indian has not so much as a pick-axe, a spade, or a shovel, nor anything else but his own labour. This is one great cause of the slow progress of opulence in

every country; till some stock be produced there can be no division of labour, and before a division of labour take place there can be very little accumulation of stock.

The other cause that was assigned was the nature of civil government. In the infancy of society, as has been often observed, government must be weak and feeble, and it is long before its authority can protect the industry of individuals from the rapacity of their neighbours. When people find themselves every moment in danger of being robbed of all they possess, they have no motive to be industrious. There could be little accumulation of stock, because the indolent, which would be the greatest number, would live upon the industrious, and spend whatever they produced. When the power of government becomes so great as to defend the produce of industry, another obstacle arises from a different quarter. Among neighbouring nations in a barbarous state there are perpetual wars, one continually invading and plundering the other, and though private property be secured from the violence of neighbours, it is in danger from hostile invasions. In this manner it is next to impossible that any accumulation of stock can be made. It is observable that among savage nations there are always more violent convulsions than among those farther advanced in refinement. Among the Tartars and Arabs, great bands of barbarians are always roaming from one place to another in quest of plunder, and they pillage every country as they go along. Thus large tracts of country are often laid waste and all the effects carried away. Germany too was in the same condition about the fall of the Roman Empire; nothing can be more an obstacle to the progress of opulence.

We shall next consider the effect of oppressive measures, first, with regard to agriculture, and then with regard to commerce.

Agriculture is of all other arts the most beneficent to society, and whatever tends to retard its improvement is extremely prejudicial to the public interest. The produce of agriculture is much greater than that of any other manufacture. The rents of the whole lands in England amount to about 24 millions, and as the rent is generally about a third of the produce, the whole annual produce of the lands must be about 72 millions. This is much more than the produce of either the linen or woollen manufactures, for, as the annual consumption is computed to be about 100 millions, if you deduce from this the 72 millions, the produce of agriculture, there will remain only 28 millions for all the other manufactures of the nation. Whatever measures therefore discourage the improvement of this art are extremely prejudicial to the progress of opulence.

One great hindrance to the progress of agriculture is the throwing great tracts of land into the hands of single persons. If any man's estate be more than he is able to cultivate, a part of it is in a manner lost. When a nation of savages takes possession of a country, the great and powerful divide the whole lands among them, and leave none for the lower ranks of people. In this manner the Celtae, and

afterwards the Saxons, took possession of our own island. When land is divided in great portions among the powerful, it is cultivated by slaves, which is a very unprofitable method of cultivation. The labour of a slave proceeds from no other motive but the dread of punishment, and if he could escape this, he would work none at all. Should he exert himself in the most extraordinary manner, he cannot have the least expectations of any reward; and as all the produce of his labour goes to his master, he has no encouragement to industry. A young slave may perhaps exert himself a little at first, in order to attain his master's favour; but he soon finds that it is all in vain, and that, be his behaviour what it will, he will always meet with the same severe treatment. When lands, therefore, are cultivated by slaves, they cannot be greatly improved, as they have no motive to industry. A cultivation of the same kind is that by villains. The landlord gave a man a piece of ground to cultivate, allowing him to maintain himself by it, and obliging him to restore whatever was over his own maintenance. This was equally unfavourable to the progress of agriculture, because the villains, who were a kind of slaves, had no motive to industry but their own maintenance. This objection lies equally against all cultivation by slaves. Some of the West India islands have indeed been cultivated by slaves, and have been greatly improved, but they might have been cultivated by freemen at less expense; and had not the profits of sugar been very great, the planters could not have supported the expense of slaves, but their profits have been so enormous, that all the extraordinary expense of slave cultivation has vanished before it. In the northern colonies they employ few slaves, and, though they are in a very flourishing condition in those colonies, the lands are generally cultivated by the proprietors, which is the most favourable method to the progress of agriculture. A tenant of the best kind has always a rent to pay, and therefore has much less to lay out on improvements. When a country sends out a colony, it may hinder a large tract of land to be occupied by a single person; but when savages take possession of a country, they are subject to no laws, the strongest man takes possession of most ground, and therefore among them agriculture cannot be quickly promoted.

After villains went out, as was explained before, tenants by steel bow succeeded. The landlord gave a farm with a stock to a villain, which were restored with half of the produce, at the end of the year, to the landlord; but as the tenant had no stock, nor though he had, any encouragement to lay it out on improvements, this method always was unfavourable to agriculture. For the same reason that tithes, by depriving the farmer of a tenth of his produce, hinder improvement, this, though in a higher degree, was a hindrance, because the tenant was deprived of one-half of the produce. A great part of France is still cultivated by tenants of steel bow, and it is said that it still remains in some parts of the Highlands of Scotland.

The next species of cultivation was that by tenants, such as we have at present. Some of the tenants by steel bow, by extreme pinching and cunning, got

a small stock laid up and offered their masters a fixed rent for the ground. Thus in progress of time the present method of cultivation was introduced, though it was long liable to inconveniences. If the landlord sold his land, the new proprietor was not bound to the terms of agreement, and the tenant was often turned out of his farm; the landlord too invented a method to get rid of the tenant when he pleased by selling the estate to another, on whom he had a back bond to make him return the estate whenever the tenants were turned out. As the tenants were continually in danger of being turned out, they had no motive to improve the ground. This takes place to this day in every country of Europe, except Britain. In Scotland, contracts of this kind were rendered real rights in the reign of James III, and in England in that of Henry VII.

Besides these there were several other impediments to the progress of agriculture. At first all rents were paid in kind, by which, in a dear year, the tenants were in danger of being ruined. A diminution of produce seldom hurts the tenant who pays his rent in money, because the price of corn rises in proportion to its scarcity. Society, however, is considerably advanced before money comes to be the whole instrument of commerce.

Another embarrassment was that the feudal lords sometimes allowed the king to levy subsidies from their tenants, which greatly discouraged their industry. Besides all, under the tyranny of the feudal aristocracy, the landlords had nothing to stop them from squeezing their tenants and raising the rents of their lands as high as they pleased. England is better secured in this respect than any country, because everyone who hold[s] but 40s. a year for life has a vote for a member of parliament, by which, if he rent a farm, he is secure from oppression.

Several circumstances concurred to continue the engrossment of lands. The right of primogeniture was pretty early established, and hindered estates from being divided. The institution of entails is to this day attended with the same bad consequences. The embarrassment, too, of the feudal law in transferring property, detarded the progress of agriculture. Any quantity of any other commodity may be bought or sold in an instant, but in purchasing four or five acres of land a great deal [of] time must be spent in examining the progress of writs, and getting your right legally constituted. This tends greatly to the engrossment of lands, and consequently stops their improvement. If all the forms in buying lands were abolished, every person almost who had got a little money would be ready to lay it out on land, and the land by passing through the different hands would be much better improved. There is no natural reason why a thousand acres should not be as easily purchased as a thousand yards of cloth. The keeping land out of the market always hinders its improvement. A merchant who buys a little piece of land has it in his eye to improve it, and make the most of it he can. Great and ancient families have seldom either stock or inclination to improve their estates, except a small

piece of pleasure-ground about their house.

There are many errors in the police of almost every country, which have contributed greatly to stop the progress of agriculture. Our fathers, finding themselves once in every two or three years subject to the most grievous dearths, to escape that calamity prohibited the exportation of corn. This is still the police of the greater part of Europe, and it is the cause of all that dearth it is intended to prevent. In a plentiful year the corn of Spain, though the most fertile country in the world, is not worth the cutting down; they suffer it to lie rotting on the ground, because they would get nothing for it. The cause of this is not the indolence of the people, as is commonly imagined. The fact is, the farmer, finding he cannot dispose of his corn this year, will not risk a crop next year, but turns his grounds to grass. Next year a famine ensues, and he sows more than can be disposed of for the following season. It is to be observed that this was one great cause of the depopulation of ancient Italy. Exportation of corn was prohibited by severe penalties, and the importation of it encouraged by high premiums, so that the Italian farmers had no encouragement to industry, not being sure of a market. In the latter times of the Republic the Emperors tried several methods of promoting the cultivation of the country, but being ignorant that the real cause of their want was the immense quantity of corn daily imported from Egypt, and other parts of Africa, all their endeavours were ineffectual. Caligula and Claudius gave their soldiers land for nothing, upon condition that they would cultivate it, but as the soldiers had no other motive, very inconsiderable improvements were made. Virgil, too, published his *Georgics* to bring the cultivation of land into fashion, but all was in vain. Foreign corn was always sold cheaper than their own could be raised. Agreeably to this we find Cato in the Third Book of Cicero's *Offices*, preferring pasturage of any kind to farming. The Kings of Spain have also done all in their power to promote the improvement of land. Philip IV went to the plough himself in order to set the fashion. He did everything for the farmers except bringing them a good market; he conferred the titles of nobility upon several farmers; he very absurdly endeavoured to oppress manufacturers with heavy taxes in order to force them to the country; he thought that in proportion as the inhabitants of towns became more numerous, those in the country decreased. This notion was highly ridiculous; for the populousness of a town is the very cause of the populousness of the country, because it gives greater encouragement to industry. Every man in a town must be fed by another in the country, and it is always a sign that the country is improving when men go to town. There are no parts of the country so well inhabited nor so well cultivated as those which lie in the neighbourhood of populous cities.

All these causes have hindered, and still hinder, the improvement of agriculture, the most important branch of industry. We may observe that the greater

number of manufacturers there are in any country, agriculture is the more improved, and the causes which prevent the progress of these react, as it were, upon agriculture. It is easy to show that the free export and import of corn is favourable to agriculture. In England, the country has been better stored with corn, and the price of it has gradually sunk, since the exportation of it was permitted. The bounty on exportation does harm in other respects, but it increases the quantity of corn. In Holland corn is cheaper and plentier than anywhere else, and a dearth is there unknown. That country is as it were the magazine of corn for a great part of Europe: this is entirely owing to the free export and import they enjoy. If no improper regulations took place, any country of Europe might do more than maintain itself with all sorts of grain.

The slow progress of arts and commerce is owing to causes of a like kind. In all places where slavery took place, the manufactures were carried on by slaves. It is impossible that they can be so well carried on by slaves as by freemen, because they can have no motive to labour but the dread of punishment, and can never invent any machine for facilitating their business. Freemen who have a stock of their own, can get anything accomplished which they think may be expedient for carrying on labour. If a carpenter think that a plane will serve his purpose better than a knife, he may go to a smith and get it made; but if a slave make any such proposal he is called a lazy rascal, and no experiments are made to give him ease. At present the Turks and Hungarians work mines of the same kind, situated upon opposite sides of the same range of mountains, but the Hungarians make a great deal more of them than the Turks, because they employ free men, while the Turks employ slaves. When the Hungarians meet with any obstacle every invention is on work to find out some easy way of surmounting it; but the Turks think of no other expedient but to set a greater number of slaves to work. In the ancient world, as the arts were all carried on by slaves, no machinery could be invented, because they had no stock; after the fall of the Roman Empire, too, this was the case all over Europe.

In a rude society nothing is honourable but war. In the *Odyssey*, Ulysses is sometimes asked, by way of affront, whether he be a pirate or a merchant. At that time a merchant was reckoned odious and despicable; but a pirate or robber, as he was a man of military bravery, was treated with honour. We may observe that those principles of the human mind which are most beneficial to society, are by no means marked by nature as the most honourable. Hunger, thirst, and the passion for sex are the great supports of the human species, yet almost every expression of these excites contempt. In the same manner, that principle in the mind which prompts to truck, barter, and exchange, though it is the great foundation of arts, commerce, and the division of labour, yet it is not marked with anything amiable. To perform anything, or to give anything without a reward, is always generous and noble, but to barter one thing for another is mean. The plain reason for this is that

these principles are so strongly implanted by nature that they have no occasion for that additional force which the weaker principles need. In rude ages this contempt rises to the highest pitch, and even in a refined society it is not utterly extinguished. In this country a small retailer is even in some degree odious at this day. When the trade of a merchant or mechanic was thus depreciated in the beginnings of society, no wonder that it was confined to the lowest ranks of people. Even when emancipated slaves began to practice these trades, it was impossible that much stock could accumulate in their hands, for the government oppressed them severely, and they were obliged to pay licences for their liberty of trading. In Doomsday-book we have an account of all the different traders in every county, how many of them were under the king, and how many under such a bishop, and what acknowledgments they were obliged to pay for their liberty of trading.

This mean and despicable idea which they had of merchants greatly obstructed the progress of commerce. The merchant is, as it were, the mean between the manufacturer and the consumer; the weaver must not go to the market himself, there must be somebody to do this for him. This person must be possessed of a considerable stock, to buy up the commodity and maintain the manufacturer; but when merchants were so despicable and laid under so great taxations for liberty of trade, they could never amass that degree of stock which is necessary for making the division of labour, and improving manufactures. The only persons in those days who made any money by trade were the Jews, who, as they were considered as vagabonds, had no liberty of purchasing lands, and had no other way to dispose of themselves but by becoming mechanics or merchants; their character could not be spoiled by merchandise, because they could not be more odious than their religion made them. Even they were grievously oppressed, and consequently the progress of opulence [was] greatly retarded.

Another thing which greatly retarded commerce was the imperfection of the law with regard to contracts, which were the last species of rights that sustained action, for originally the law gave no redress for any but those concluded on the spot. At present all considerable commerce is carried on by commissions, and unless these sustained action, little could be done. The first action on contracts extended only to the moveable goods of the contractor, neither his lands nor his person could be touched; his goods were often very inconsiderable, and probity is none of the most prevalent virtues among a rude people. It is commerce that introduces probity and punctuality.

Another obstacle to the improvement of commerce was the difficulty of conveyance from one place to another. The country was then filled with retainers, a species of idle people who depended on the lords, whose violence and disorders rendered the going from one place to another very difficult. Besides, there were then no good highways. The want of navigable rivers in many places was also an

inconvenience. This is still the case in Asia and other Eastern countries: all inland commerce is carried on by great caravans, consisting of several thousands, for mutual defence, with waggons, &c. In our own country a man made his testament before he set out from Edinburgh to Aberdeen, and it was still more dangerous to go to foreign countries. The laws of every country to aliens and strangers are far from being favourable. It is difficult, or rather impossible, for them to obtain satisfaction. After this was a little remedied still conveyance by sea remained difficult. Piracy was an honourable occupation. Men were ignorant of navigation, and exposed to dangers on this account. The price of all these risks was laid upon the goods, and by this means they were so much raised above the natural price that the improvement of commerce was greatly retarded.

Another piece of police which was thought a wise institution by our forefathers had the same effect. This was the fairs and markets all over Europe. Till the sixteenth century all commerce was carried on by fairs. The fairs of Bartholomew, of Leipzig, of Troy in Champagne, and even of Glasgow, are much talked of in antiquity. These were the most central places, and best fitted for carrying on business. All linen and black cattle were brought in from the country to these assignations or trysts, and, lest the purchaser should be disappointed, they were all brought on a certain day, and were not allowed to be sold on any other day. Forestallers, who went up and down the country buying up commodities, were severely punished, as this was a temptation not to bring them to the market. This might be necessary when it was not safe to go anywhere alone, but though you make no fairs, buyers and sellers will find a way to each other. Easy conveyance and other conveniences of trafficking will be of more advantage than the bringing them to a fixed market and thereby confining buying and selling to a certain season. All fairs, however necessary they then were, are now real nuisances. It is absurd to preserve in people a regard for their old customs, when the causes of them are removed.

Another obstacle to commerce was staple towns, which had the exclusive privilege of selling a certain commodity within that district. Calais, when it belonged to the English, was long the staple for wool. As men were obliged to carry their wool to such a distance, its price was very high. It was however a very great advantage to any town to have the staple, and therefore the king gave it to that town with which he was best pleased, and took it away whenever it disobliged him. Staple towns had all the disadvantages of fairs and markets with this additional one, that the staple commodity could be sold at no fair nor market except one. By this the liberty of exchange, and consequently the division of labour, was diminished.

All taxes upon exportation and importation of goods also hinder commerce. Merchants at first were in so contemptible a state that the law, as it were, abandoned them, and it was no matter what they obliged them to pay. They, however, must

lay the tax upon their goods, their price is raised, fewer of them are bought, manufactures are discouraged, and the division of labour hindered.

All monopolies and exclusive privileges of corporations, for whatever good ends they were at first instituted, have the same bad effect. In like manner the statute of apprenticeship, which was originally an imposition on government, has a bad tendency. It was imagined that the cause of so much bad cloth was that the weaver had not been properly educated, and therefore they made a statute that he should serve a seven years apprenticeship before he pretended to make any. But this is by no means a sufficient security against bad cloth. You yourself cannot inspect a large piece of cloth, this must be left to the stampmaster, whose credit must be depended upon. Above all other causes the giving bounties for one commodity, and the discouraging another, diminishes the concurrence of opulence, and hurts the natural state of commerce.

Before we treat of the effects of police upon the manners of a people, we propose to consider taxes or revenue, which is in reality one of the causes that the progress of opulence has been so slow.

*{At this point in the text "Part II: Of Police" is interrupted by the entirety of "Part III: Of Revenue." Here we omit "Of Revenue," and resume with "Of Police," of which only § 17 remains. }*

### **[§ 17. *Of the Influence of Commerce on Manners.*]**

It remains now that we consider the last division of police, and show the influence of commerce on the manners of a people. Whenever commerce is introduced into any country probity and punctuality always accompany it. These virtues in a rude and barbarous country are almost unknown. Of all the nations in Europe, the Dutch, the most commercial, are the most faithful to their word. The English are more so than the Scotch, but much inferior to the Dutch, and in the remote parts of this country they [are] far less so than in the commercial parts of it. This is not at all to be imputed to national character, as some pretend; there is no natural reason why an Englishman or a Scotchman should not be as punctual in performing agreements as a Dutchman. It is far more reducible to self-interest, that general principle which regulates the actions of every man, and which leads men to act in a certain manner from views of advantage, and is as deeply implanted in an Englishman as a Dutchman. A dealer is afraid of losing his character, and is scrupulous in observing every engagement. When a person makes perhaps twenty contracts in a day, he cannot gain so much by endeavouring to impose on his neighbours, as the very appearance of a cheat would make him lose. When people seldom deal with one another, we find that they are somewhat disposed to cheat,

because they can gain more by a smart trick than they can lose by the injury which it does their character.

They whom we call politicians are not the most remarkable men in the world for probity and punctuality. Ambassadors from different nations are still less so; they are praised for any little advantage they can take, and pique themselves a good deal on this degree of refinement. The reason of this is that nations treat with one another not above twice or thrice in a century, and they may gain more by one piece of fraud, than [lose] by having a bad character. France has had this character with us ever since the reign of Lewis XIV, yet it has never in the least hurt either its interest or splendour. But if states were obliged to treat once or twice a day, as merchants do, it would be necessary to be more precise, in order to preserve their character. Wherever dealings are frequent, a man does not expect to gain so much by any one contract, as by probity and punctuality in the whole, and a prudent dealer, who is sensible of his real interest, would rather choose to lose what he has a right to, than give any ground for suspicion. Everything of this kind is odious as it is rare. When the greater part of people are merchants, they always bring probity and punctuality into fashion, and these, therefore, are the principal virtues of a commercial nation.

There are some inconveniences, however, arising from a commercial spirit. The first we shall mention is that it confines the views of men. Where the division of labour is brought to perfection, every man has only a simple operation to perform; to this his whole attention is confined, and few ideas pass in his mind but what have an immediate connexion with it. When the mind is employed about a variety of objects, it is somehow expanded and enlarged, and on this account a country artist is generally acknowledged to have a range of thoughts much above a city one. The former is perhaps a joiner, a house carpenter, and a cabinet-maker, all in one, and his attention must of course be employed about a number of objects of very different kinds. The latter is perhaps only a cabinet-maker; that particular kind of work employs all his thoughts, and as he had not an opportunity of comparing a number of objects, his views of things beyond his own trade are by no means so extensive as those of the former. This must be much more the case when a person's whole attention is bestowed on the seventeenth part of a pin or the eightieth part of a button, so far divided are these manufactures. It is remarkable that in every commercial nation the low people are exceedingly stupid. The Dutch vulgar are eminently so, and the English are more so than the Scotch. The rule is general; in towns they are not so intelligent as in the country, nor in a rich country as in a poor one.

Another inconvenience attending commerce is that education is greatly neglected. In rich and commercial nations the division of labour, having reduced all trades to very simple operations, affords an opportunity of employing children very young. In this country, indeed, where the division of labour is not far advanced,

even the meanest porter can read and write, because the price of education is cheap, and a parent can employ his child no other way at six or seven years of age. This, however, is not the case in the commercial parts of England. A boy of six or seven years of age at Birmingham can gain his threepence or sixpence a day, and parents find it to be their interest to set them soon to work; thus their education is neglected. The education which low people's children receive is not, indeed, at any rate considerable; however, it does them an immense deal of service, and the want of it is certainly one of their greatest misfortunes. By it they learn to read, and this gives them the benefit of religion, which is a great advantage, not only considered in a pious sense, but as it affords them subject for thought and speculation. From this we may observe the benefit of country schools, and, however much neglected, must acknowledge them to be an excellent institution. But, besides this want of education, there is another great loss which attends the putting boys too soon to work. The boy begins to find that his father is obliged to him, and therefore throws off his authority. When he is grown up he has no ideas with which he can amuse himself. When he is away from his work he must therefore betake himself to drunkenness and riot. Accordingly we find that in the commercial parts of England, the tradesmen are for the most part in this despicable condition; their work through half the week is sufficient to maintain them, and through want of education they have no amusement for the other, but riot and debauchery. So it may very justly be said that the people who clothe the whole world are in rags themselves.

Another bad effect of commerce is that it sinks the courage of mankind, and tends to extinguish martial spirit. In all commercial countries the division of labour is infinite, and every one's thoughts are employed about one particular thing. In great trading towns, for example, the linen merchants are of several kinds, for the dealing in Hamburg and Irish linens are quite distinct professions. Some of the lawyers attend at King's Bench, some at the court of Common Pleas, and others at the Chancery. Each of them is, in a great measure, unacquainted with the business of his neighbour. In the same manner war comes to be a trade also. A man has then time to study only one branch of business, and it would be a great disadvantage to oblige every one to learn the military art and to keep himself in the practice of it. The defence of the country is therefore committed to a certain set of men who have nothing else ado, and among the bulk of the people military courage diminishes. By having their minds constantly employed on the arts of luxury, they grow effeminate and dastardly.

This is confirmed by universal experience.

In the year 1745 four or five thousand naked unarmed Highlanders took possession of the improved parts of this country without any opposition from the unwarlike inhabitants. They penetrated into England, and alarmed the whole nation, and had they not been opposed by a standing army, they would have seized

the throne with little difficulty. Two hundred years ago such an attempt would have roused the spirit of the nation. Our ancestors were brave and warlike, their minds were not enervated by cultivating arts and commerce, and they were all ready with spirit and vigour to resist the most formidable foe. It is for the same reason, too, that an army of four or five hundred Europeans have often penetrated into the Mogul's country, and that the most numerous armies of the Chinese have always been overthrown by the Tartars. In those countries the division of labour and luxury have arrived at a very high pitch, they have no standing army, and the people are all intent on the arts of peace. Holland, were its barriers removed, would be an easy prey. In the beginning of this century the standing army of the Dutch was beat in the field, and the rest of the inhabitants, instead of rising in arms to defend themselves, formed a design of deserting their country, and settling in the East Indies. A commercial country may be formidable abroad, and may defend itself by fleets and standing armies, but when they are overcome, and the enemy penetrates into the country, the conquest is easy. The same observation may be made with respect to Rome and Carthage. The Carthaginians were often victorious abroad, but when the war was carried into their own country, they had no share with the Romans. These are the disadvantages of a commercial spirit. The minds of men are contracted, and rendered incapable of elevation. Education is despised, or at least neglected, and heroic spirit is almost utterly extinguished. To remedy these defects would be an object worthy of serious attention.

Thus we have finished the three first great objects of law, to wit, justice, police, and revenue. We proceed now to treat of arms, the fourth part of the general division of jurisprudence.

## About the Author



**Adam Smith** (1723–1790) was the Scottish moral philosopher whose two principal works were *The Theory of Moral Sentiments* (1st ed. 1759, 6th ed. 1790) and *The Wealth of Nations* (1st ed. 1776). As a student at Glasgow he studied under “the never to be forgotten” Francis Hutcheson, and later in life he was best friend to the “never to be forgotten” David Hume.

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