Donald Winch

The Political Economy of Public Finance in the ‘Long’ Eighteenth Century

The main public dispositions towards the institution and management of the national debt in Britain were formulated during the ‘long’ eighteenth century that culminated with victory over Napoleonic France in 1815. With hindsight and a little surgery, it is possible to treat some of these dispositions as the result of economic theorising in the modern vein. For much of the period with which I shall be concerned, however, attitudes towards public debt were peculiarly bound up with politics in every conceivable sense of the term. Joseph Schumpeter, whose patience when faced with distractions from the pure logic of economics was never on a long leash, refused to become embroiled with the subject on the grounds that ‘judgment and advocacy greatly prevailed over analysis’. Although I shall be dealing with some figures whose role within the history of economic analysis can hardly be disputed -- David Hume, Adam Smith, David Ricardo, and Robert Malthus -- Schumpeter’s puritanism is neither possible nor attractive to someone with my brief. Moreover, what seem like anomalies and distractions when viewed from the modern economic theorists’ perspective may possess an equally pressing logic of their own which it is the duty of intellectual historians -- on my reading of those duties at least -- to capture and respect.

I

Let me begin with some potted political history of the ‘what-every-schoolboy-knows’ variety. Just as the Church of England had its origins in the marital infidelities of one of our monarchs, so the creation of the national debt, together with its essential partner, the Bank of England, is irrevocably linked with securing the ‘Glorious Revolution’ of 1688 and underpinning the Hanoverian settlement. Providing the means by which the new regime could borrow gave those who invested in the annuities that the government began to issue in 1692/3 an interest in its continuance in a very literal sense. What began as the only alternative to heavier taxation

---

1 Originally given as a paper to the History of Economics Spring Conference at Gresham College, February 23, 1996. I am grateful to Takuo Dome, Denis O’Brien, and Patrick O’Brien for helpful comments on an earlier draft of this paper.

by a government that had yet to command unequivocal public support later became a reason for having to levy heavier taxes to meet the costs of rising debt associated with what was to be a century of intermittent war. Preservation of the protestant succession entailed a sequence of military engagements and alliances to counter papish monarchs who were believed to have ambitions of creating ‘universal monarchy’ in Europe. Although such ambitions were primarily associated with Louis XIV and XV, they were to persist in different, but equally alarming, ideological guise under Napoleon until his final defeat at Waterloo. The acquisition and extension of colonial markets and sources of supply served either as a complementary casus belli, or, particularly for exponents of an expansionist mercantile state, as the true underlying motive.  

War and the maintenance of what is now referred to as the ‘fiscal-military’ state was the sole cause of rising levels of public debt throughout a period in which Britain was at war for nearly sixty of the years separating the beginning of the war of Spanish succession in 1702 from the peace of Versailles in 1815. By that time the national debt had risen from £2 million in 1688 to £834 million in 1815, from 5% of GNP to over twice the size of GNP, despite the fact that the cost of borrowing over the same period had roughly halved. Interest payments had accounted for less than a quarter of the total tax receipts at the beginning of the century: by 1815 they accounted for over a half.

A great deal of ingenious work has been done on the political economy of Hanoverian public finances in recent decades. Sustaining the rising level of debt over the century entailed the creation of an effective system for raising revenue, one that was reasonably efficient in a bureaucratic sense, yet politically sensitive to the possibilities of various kinds of tax revolt, where the costs of enforcement, political or economic, would exceed likely revenues.

---


4 John Brewer is generally credited with coining the term ‘fiscal-military’ state; see his *The Sinews of Power; Money and the English State, 1688-1783*, London, 1989. Much of the information and interpretation underlying the fiscal element in this equation is derived from the work by P. M. G. Dickson, Peter Mathias, and Patrick O’Brien mentioned in the notes that follow.


By some such combination of methods, as Peter Mathias and Patrick O’Brien have shown, Britain was able to bear a system of taxation that was roughly twice as burdensome as that of France in per capita terms, becoming thrice as large during the Napoleonic wars, with economic growth being unable to offset the burden over the same period.\textsuperscript{7} In this respect modern research has confirmed Smith’s observation that: ‘The French system of taxation seems, in every respect, inferior to the British.’ Despite having a population three times the size of Britain, he estimated that French taxes yielded ‘not the half of what might have been expected, had the people contributed in the same proportion to their numbers as the people of Great Britain.’\textsuperscript{8} Moreover, because the French system relied so much on tax farming, only half of the revenues were handed over to the state, with more oppressive methods being used to obtain them.\textsuperscript{9} The exploitation of a widening tax base, especially that furnished by customs duties on an expanding foreign trade and by excise duties on goods moving within an integrated domestic market, rather than a higher rate of overall growth in the economy, seems to have been the crucial enabling factor in British success, together with various intangibles of a political and social character. The mutual dependence of public credit and constitutional stability was built into the foundations of the institution from the outset, and efficiency in tax collection gave security to investors by insuring against public repudiation, a device frequently resorted to by French monarchs. A sophisticated money market was able to develop, matched only by that of Holland, the country that provided the bulk of foreign investors in British public funds. The inability of France to match these institutions became a major source of concern under the \textit{ancien regime} and during the French revolution.\textsuperscript{10}


\textsuperscript{8} \textit{Wealth of Nations (WN)} in \textit{The Glasgow Edition of the Works and Correspondence of Adam Smith}, in 6 volumes, Oxford, 1976-87, V.ii.k.78. All future references to Smith use this edition and the conventional abbreviations.

\textsuperscript{9} \textit{WN}, V.ii.k.74-77.

The system of parliamentary control that evolved over the century did not prevent widespread venality and defalcation, especially during periods of war. By post-1815 standards, and certainly by those established later in the nineteenth century, it appeared to be a corrupt and profligate system. The relevant contrast here, however, is with France. After John Law’s failure, not only did France not have a central bank capable of organising a money market, but her public finances remained largely in the hands of private agents. Smith’s proposals for reform of the French system entailed lowering the cost of collection by means of a uniform, or national, set of indirect taxes, and a reduction in the ‘exorbitant profits’ of tax farmers by subjecting them to ‘an administration under the immediate inspection and direction of government’.11 Smith’s belief that inequalities in levying the taille, a property tax, had created interest groups centring on specific regions and particular social orders that were capable of blocking any attempt to reform the system proved only too correct. The world’s most powerful absolute monarchy did not possess the means of overcoming localised opposition. French finance ministers literally did not know what the state’s revenues and expenditures were, and even words like ‘committee’ and ‘budget’ had to be re-imported from the English language, the latter having begun life as a small bag or bougette.12 By contrast, Britain evolved a system of public accounts under Treasury commissioners responsible to parliament and capable of estimating fiscal requirements with reasonable accuracy.13

Clearly, the relationship between the public and private spheres cannot be treated simply as one of antagonism or, as we now so inelegantly put it, ‘crowding out’. The older idea of the British eighteenth-century state as ineffectually minimalist, yet still corrupt and expensive enough to be capable of inhibiting the healthy development of a vigorous private economy, is being revised on all fronts, with neo-mercantilist and neo-Keynesian conclusions now being given a larger hearing than the ‘neo-liberal’ interpretations that have previously held sway. Whereas the foundation of British economic growth through industrialisation in the nineteenth century, as E. A. Wrigley and others have shown, can legitimately be traced back

11 WN,V.ii.k.77.
to earlier successes in solving the basic population-subsistence equation, largely through private capitalistic methods, thereby releasing population for urban activities, it was the early creation of a unified system of national administration, under a parliament capable of ensuring an element of public accountability, that helped to make the British state such a powerful entity in matters of war and imperial expansion.\footnote{14 For a recent restatement of Wrigley’s findings on Britain’s demographic history, seen within the context of the debate on the ‘fiscal-military state’, see E. A. Wrigley, ‘Society and the Economy in the Eighteenth Century’ in L. Stone (ed), \textit{An Imperial State at War}, pp.72-95.} Neo-mercantilist interpretations take this one step further by suggesting that there were positive economic advantages attached to war and the associated acquisition of colonies and markets; that power and plenty were not in conflict with one another. The early French revolutionary leaders, as J. F. Bosher has shown, may have succeeded in providing a national or public dimension to what had essentially been a privatised system of public finance. Nevertheless, the legacy of this system continued to arouse political resentment and probably served to retard both public and private activities in France.

The outcome of these developments, when judged in terms international power relations, was clear to all observers by 1815. Britain was to be isolated and on the losing side of only one of the wars that took place during the century -- the American war of independence (1776-83), where what was said earlier about sensitivity to tax revolt clearly does not apply. Despite the loss of the western jewel in Britain’s first empire, however, by 1815 she had emerged as the world’s leading naval, colonial, financial, commercial, and manufacturing power. France’s relative failure to cope with the fiscal problems of war mobilisation helps to account for her defeat during the Seven Years War (1756-63), as well as for longer-run fiscal difficulties.\footnote{15 See J. Riley, \textit{The Seven Years War and the Old Regime in France; The Economic and Financial Toll}, Princeton, 1986.} Napoleon could not have come as close to conquering Europe as he did unless there had been some success in attempts to emulate the efficiency of the British system of war finance. These included outright inflation by means of \textit{assignats} during the revolutionary period, and were followed by a return to \textit{ancien regime} methods by Napoleon. Attempts to reform French finances had begun with Jacques Necker before the revolution, but were not sufficiently successful to prevent fiscal problems from bulking large as one of its main causes, along with
the failure to find stable solutions to the subsistence problems of an enlarged population. The fall of the ancien regime in 1789, therefore, was one of the more dramatic consequences of French failure to resolve the long-term fiscal difficulties created by the military ambitions and financial incompetence of its monarchs. It was the opposite side of the coin on which the positive achievements of her traditional enemy were inscribed.16

The domestic political repercussions of the national debt in Britain were the subject of extensive debate during the eighteenth century. The financial market that arose, particularly when redeemable loans became the chief medium for borrowing after 1715, created a ‘monied interest’ that centred on the Bank of England and the two larger joint stock companies that owed their existence to government privilege, the East India and South Sea Companies. In addition to the monopoly powers of such corporations, the monied interest, estimated by Hume to have a membership of around 17,000 by the middle of the century, but to grow more dramatically during the Napoleonic wars, aroused the suspicions of more traditional political and economic interest groupings, particularly those connected with landownership. Old-style Tories and ‘Country’ Whigs kept up a barrage of adverse comment on the debilitating and corrupting effects of the debt; they considered that it placed parliamentary independence, and possibly even the stability of the entire constitutional arrangement, under direct and indirect threat.17

Directly, this occurred through the growth of a volatile form of wealth that provided the means by which the monarch and his chief minister could distribute the ‘loaves and fishes’ necessary for ‘managing’ parliament, otherwise known as ‘corruption’ or undermining that bulwark of liberty, the independent landed gentry. Hence the long-running issue known as the ‘influence’ of the Crown, and the way in which oppositional writers used motions designed to reduce this influence as the chief means of controlling the executive. After Edmund Burke’s ‘economical reform’ bill of 1780, the concern with ‘influence’ was joined, or rather overlaid,

16 The comparative dimension to state finances is now the subject of a major international scholarly enterprise on the origins of the modern state in Europe financed by the European Science Foundation. For some of the results relevant to this paper see R. Bonney (ed), Economic Systems and State Finance, Oxford, 1995, especially Chapter 11 by the editor.
17 For what is still the classic study, see P. M. G. Dickson, The Financial Revolution in England; A Study in the Development of Public Credit, 1688-1756, London, 1967, Chapter 2.
by more straightforward proposals for retrenchment in public expenditure. Indirectly, the
monied interest threatened the more traditional groupings because of the burden falling on
landowners in the form of the land tax, though by the end of the century large numbers
of them were also debt holders. The complaints of landowners during the first half of the
century, however, had become sufficiently ritualised for Smith to refer to it in his lectures
given in the 1760s simply as the ‘Tory interest’.18 Movements in the rate of interest as a
result of the exigencies of the market for government paper, of course, affected the value
of land and the cost of borrowing to make agricultural improvements or extend mercantile
credit. These creditor versus debtor, City versus agriculture and commerce, tensions acquired
another political dimension as a result of the concentration of the monied interest in London,
adding to the city’s disproportionate growth and marking the beginning of what William
Cobbett would condemn as ‘the great wen’, and others, much later, would refer to as the
‘tyranny of the square mile’.

II

The writings of Hume and Smith on public debt can either be taken as evidence of their acute
appreciation of these tensions in British political life, or, as Schumpeter maintained, of their
incapacity to get beyond expressing ‘current opinion’ on the ruinous proclivities of debt --
an opinion first signalled, though less disparagingly, by J. R. McCulloch when looking back
on eighteenth-century debates.19 Once more, however, it is necessary to remember that any
separation of political and economic concerns could only be a temporary expositional device.
Indeed, in Hume’s case, the net disadvantages of public debt to commerce and manufacturing
were considered to be ‘trivial in comparison [with] the prejudice that results to the state
considered as a body politic, which must support itself in the society of nations, and have
various transactions with other states in wars and negociations’.20 Hume witnessed Britain’s

---

19 In the introduction to his Select Collection of Scarcce and Valuable Tracts on the National Debt and the Sinking Fund
(1857), McCulloch treated Hume and Smith as falling into the common error of their time in underestimating those economic
changes associated with the growth of manufacturing that would enable the burden to be borne; see pp.x-xi.
Thought, 1994, p.170
surprisingly comprehensive victory in 1763, but as the additions which he made to his essay on public credit in the following year reveal, that merely added to his anxieties. As early as 1769, he looked forward to ‘the total revolt of America’. In 1776, just before his death, he welcomed the likely byproduct, a reduction in the size and importance of London in the political and economic life of the nation.\textsuperscript{21}

When diagnosing the nature of political parties, Hume held that the ‘genuine offspring’ of Britain’s ‘mixed’ constitution was the division, based on principle and interest, between Court and Country parties, with the latter being opposed to foreign wars, political corruption, and an idle monied interest.\textsuperscript{22} Whereas Hume adopted a hard-headed Court view on the necessity of ‘influence’, even ‘corruption’, in managing parliament, on public debt his opinions veered decidedly in a Country direction.\textsuperscript{23} Smith followed Hume in accepting the need for ‘management and persuasion’, but provided a fuller and more balanced account of the economic advantages and disadvantages of public debt; he also held less cataclysmic opinions on its likely constitutional consequences. When Hume spoke of public debt as containing the ‘seeds of ruin’, he was not referring simply to the possibilities of economic decline or even public bankruptcy: he was predicting no less than the collapse of ‘free government’ into a form of ‘grievous despotism’ as a result of tax burdens that would destroy the ‘independent magistracy’ and result in all private property becoming mortgaged to the state, with power being shared between an absolute monarch and an influential group of stockholders whose patriotism was questionable. Hence Hume’s preference for the solution he described as ‘natural death’, an authoritative voluntary declaration of state bankruptcy undertaken to protect both the constitution and Britain’s role in maintaining the balance of power in Europe.


\textsuperscript{22} See \textit{Political Essays}, pp. 14, 26-7, 40-45.

\textsuperscript{23} The Court position was best expressed as follows: ‘We may...give this influence what name we please; we may call it by the invidious appellations of corruption and dependence; but some degree and some kind of it are inseparable from the very nature of the constitution, and necessary to the preservation of our mixed government.’ See ‘Of the Independency of Parliament’ in \textit{Political Essays}, p. 26.
Much of Hume’s pessimism on this subject arose from his belief that such a policy was more likely to be implemented under an absolute monarchy than under a system in which landed, mercantile, and monied interests were intertwined.\(^\text{24}\) It may be worth anticipating a later development in the debate at this juncture: what Hume found so worrying was to become -- in the 1790s and beyond, and particularly in the eyes of Burke -- the source of a virtuous ‘miscibility’ of interests that would enable Britain to succeed in the ideological war Burke was urging against revolutionary France.\(^\text{25}\) In other words, Britain’s proven capacity to borrow from itself and others, without putting undue strain on its political institutions, became a patriotic argument in favour of war, debt, and the superiority of British social and political arrangements. It was along these lines that Tory thinkers, such as Samuel Taylor Coleridge and Robert Southey, harking back to Burke, were to make a positive case for the national debt during and after the Napoleonic wars, adopting in the process what had previously been the position of Court Whigs during the eighteenth century. Opponents of the war with France, as well as those who were not convinced that the British constitution had reached perfection -- the categories overlapped a good deal -- took up the case against debt, war taxation, and ‘old corruption’. A Country Whig position was appropriated and perpetuated by ‘peacemongers’ and those who were later to be called radicals, popular or philosophical. The opposition category is worth noting here because it describes, albeit roughly, the position of Malthus (a Foxite Whig) as well as James Mill, Ricardo, and the youthful John Stuart Mill, philosophical radicals who were less attached to Britain’s aristocratic form of government than Malthus proved to be.\(^\text{26}\) From a less partisan perspective, however, what may be far more important to the emergence of both ‘cheap’ and ‘good’ government in Britain during the first half of


\(^{25}\) ‘Miscible’ was the term Burke used in his *Reflections on the Revolution in France* to describe the way in which, in Britain, the landed and monied interests had reached an accommodation with one another that was lacking in France.

the nineteenth century is the fact that these causes engaged the sympathies and enlightened self-interest of liberal Tories and the dominant landowning interest as well.  

As a result of the influence of the *Wealth of Nations* on a succeeding generation of political economists, those who faced the problem of public debt in much-enlarged form after 1815, Smith’s diagnosis and remedies require a little more attention. But first it is necessary to give the economic arguments countered by Hume and Smith their due. There were some enthusiastic foreign advocates of the British system of government borrowing, notably Jean-Francois Melon and Isaac de Pinto. Melon had argued that the debt involved an innocuous transfer payment from the right to the left hand.  

Pinto, while granting that ‘the interest may be a burthen to the state’, had gone even further in denying that Britain’s national debt would end in national bankruptcy: ‘her debts, never becoming due, and having no critical period to dread, are as if they did not exist’. Although Pinto claimed not to have read Hume’s essay before he circulated his *Traité de la Circulation et du Crédit* in 1761, the English translation which appeared in 1774 was presented as an explicit refutation of Hume’s position. Every new loan to government was held to ‘create a new artificial capital which did not exist before, which becomes permanent, fixed and solid, and by means of credit circulates to the advantage of the public, as if it were so much real treasure’. This beneficial circulatory process had ‘real’ results that enriched the nation and made the interest burden easier to bear. Hume’s ‘natural death’ solution would not only be dishonourable, but the bankruptcy of the thousands who held the debt would have severe deflationary consequences for the millions whom Hume sought to protect. Sustaining public credit in the eyes of domestic and foreign investors was more important, requiring a proper sinking fund to maintain confidence: hence Pinto’s recommendations on that subject.

---


On such matters Hume and Smith presented a united front. They both acknowledged that public debt provided a form of liquid asset capable of performing the functions of money while yielding an income to its users, thereby facilitating trade by reducing the general level of trading profit and lowering costs and prices. In Smith’s words, the security of the market in government paper ‘is made transferable to any other creditor and, from the universal confidence in the justice of the state, generally sells in the market for more than was originally paid for it. The merchant or monied man makes money by lending money to government, and instead of diminishing, increases his trading capital.’ They also recognised that the need to borrow and the means of so doing advance together in a progressive state; that a commercial society in which ‘want of parsimony’ leads governments to borrow can also produce lenders willing to do so. In this respect they were less open to McCulloch’s remarks about their failure to recognise that economic growth had made the debt burden easier to bear than might at first appear.

Nevertheless, neither Hume nor Smith was taken in by Melon’s book-keeping analogy: for Smith it was yet more evidence of the ‘sophistry of the mercantile system’. The capital sums raised through borrowing were subtracted from, rather than ‘superadded’ to, the national capital stock; they also represented a shift from productive to unproductive labour, and hence constituted an encroachment on future growth -- arguments that reveal Smith’s assumption that public borrowing entailed a reduction in private investment rather than consumption. He underlined the point by stressing the non-equivalence of taxes with increased debt as methods of financing war. Since taxes were assumed to fall mainly on consumption, a war financed in this way represented a shift from one form of unproductive labour towards another. It ‘hinders more or less the further accumulation of new capital; but

---

31 A slight mystery surrounds this subject. Although Hume met Pinto in Paris, he appears not to have read his work before it was translated. Having read Pinto, however, it is hard not to conclude that Hume was reacting to the emphasis on ‘circulation’ in some paragraphs criticising this doctrine which were removed in 1768; see ‘Of Public Credit’ in Political Essays, pp.312-13. Similarly, in the case of Smith, although the editors of the Glasgow edition attribute some of Smith’s criticisms to his reaction to Melon, at least one of them seems to be an attack on Pinto (e.g. WN, Viii.47), a work which Smith possessed. For a study of Pinto see R. H. Popkin, ‘Hume and Isaac de Pinto’, Texas Studies in Literature, 12, 1970-71, 417-39.

32 WN, Viii.7
it does not necessarily occasion the destruction of any actually existing capital’. 33 The reverse
was true of borrowing: it destroyed more existing capital, but had less immediate effect on
the private sources of capital formation. Private frugality, as Smith had claimed in Book II,
was thereby capable of compensating for public prodigality. But these advantages attached to
borrowing were only true during a period of war, with the tax alternative having an additional
virtue: it provided an incentive for wars to be ‘more speedily concluded, and less wantonly
undertaken’ -- an argument echoed by Ricardo and other anti-militarists after 1815.34 The
long-term burden of higher taxation to service debt had the further disadvantage that it placed
additional burdens on land and capital, thereby impairing private investment during peace-
time and creating the possibility of capital flight abroad in search of higher returns, another
issue that Ricardo was later to stress in his writings on the subject.

Smith’s introduction of the physiocratic distinction between productive and unproductive
labour in the Wealth of Nations for his own purposes in stressing the importance of private
parsimony and capital accumulation undoubtedly sharpened the economic edge of his attack
on ‘public prodigality’. Borrowing for unproductive purposes entailed retrenchment on
private capital formation, a conclusion that makes sense if high levels of employment are
assumed to be the normal state of affairs. It may also have encouraged over-simplified
readings of Smith’s attitude towards public expenditure in general and the public sector in
particular. What is often overlooked is the fact that Smith assumed that the proportion of
national income passing through the public hands for necessary purposes would increase in
all civilised nations.35 In other words, his remedies for British public finances were based not
so much on a programme for ‘rolling back the state’, but on ensuring that necessary funds
were raised in the least harmful fashion and spent in the least prodigal (most efficient) manner.

Much the same attitude underlies Smith’s remedy for something equally inevitable, the
persistence of public borrowing. Smith did not give much prominence to Hume’s drastic

33 WN, V.ii.48
34 WN, V.ii.50
35 For the evidence on this see my Riches and Poverty; An Intellectual History of Political Economy in Britain, 1750-1834,
solution. Indeed, judging from the notes on his lectures given in the 1760s, one could even say that Smith adopted a complacent Court Whig interpretation of the sinking fund as part of a system that provided guarantees against monarchical tyranny by maintaining the ‘happy mixture’ of elements that provided constitutional safeguards against encroachments on liberty. It is also highly doubtful if Smith would have approved of the use made of his estimates of Britain’s debt problem by Thomas Paine in 1796 when predicting national bankruptcy during Pitt’s lifetime. Smith certainly supplied George Chalmers with material that would enable him to counter the pessimistic propaganda of Richard Price, Paine’s radical coadjutor when it came to supporting the case against war by predicting national ruin. The position Smith adopted towards sinking funds in the Wealth of Nations is far more sceptical than the treatment given in the lectures. Usually, they were not the result of a genuine surplus of revenues over expenditures, but of windfall gains due to falling interest rates. Borrowing from the sinking fund was always likely to be ‘the obvious and easy expedient’ for hard-pressed administrations faced with the alternative of levying new taxes.

Faced with a choice between an avowed bankruptcy or a fraudulent readjustment of creditor/debtor relations by recourse to the ‘juggling trick’ of currency depreciation, Smith would always have preferred the former. But debt possessed so many attractions to governments that it would be unrealistic to treat it as anything other than a modern fact of life. As we have seen, he was certainly willing to grant that the superiority of the British system of taxation over that of France had ensured Britain’s growth in spite of its debt problem: ‘Great Britain seems to support with ease, a burden which, half a century ago, nobody believed her capable of supporting.’ Nevertheless, the legacy of the American war gave no grounds for complacency. Attention should now be focussed on ways of achieving ‘some very considerable augmentation of the publick revenue, or some equally considerable reduction of the public expence’. The art corresponding to Smith’s ‘science of the legislator’ entailed fitting remedies to second-best realities. Paradoxically, it is in this light that I believe

---

36 LJ, pp. 267-73, 421-2
37 See Riches and Poverty, pp.154-6
38 WN, Vi.iii.39-40.
Smith’s self-consciously utopian proposals for dealing with the British problem within an imperial context in the final chapter of the *Wealth of Nations* should be read.

It should first be noted that Smith’s antipathy to the old colonial system was not such as to allow him to follow Burke and other appeasers of American complaints by maintaining that the fiscal burden of maintaining the civil and military establishments connected with empire was a price worth paying to retain an artificial trading system. On the contrary, and from an early stage in his career as an adviser to statesmen, Smith was in favour of making the North American colonies pay their share of the costs of defending empire. This was his advice to Townshend when the stamp duties were first levied, and it remained his position before, during, and after the war of independence when he advanced his utopian proposal for harmonising imperial taxation around the existing British model in return for equal representation of the colonies in ‘the states-general of the British Empire’. Properly administered, so as not to place a burden on subsistence goods and raw materials, he estimated that the extension of an improved version of the British tax system would yield sufficient revenue to establish a legitimate sinking fund that would ‘discharge the whole debt, and thus to restore compleatly the at present debilitated and languishing vigour of the empire’. Smith’s attempt to answer practical objections and deal with problems of transition suggests that he considered the proposal to be economically feasible, if not likely to be politically acceptable. By retaining the scheme in all editions, when the outcome of the war was known, Smith was partly standing by his assessment of its feasibility, partly underlining the warning contained in his final remarks. If no augmentation of revenue could be expected from this source, Britain should give up all pretence of empire and ‘accommodate her future views and designs to the real mediocrity of her circumstances.’

III

What Smith could not have foreseen before his death in 1790 is how the crumbling of the *ancien regime* in France would eventually lead to a much longer and more expensive war with France than any he had previously witnessed. Those of his followers who came to maturity

---

39 *WN*, V:92.
as political economists during the Napoleonic wars, however, continued to take Smith’s position on debt and taxation as their starting point. This is especially the case, perhaps, with Ricardo, whose conclusions on the dangers posed by debt were, on the surface at least, those of an ultra-Smithian, fully committed to the importance of maintaining or increasing the ratio of productive to unproductive labour or expenditure. Ricardo’s counterpart to Smith’s speculative scheme of fiscal harmonisation within an imperial framework was his equally radical and self-confessedly ‘chimerical’ one to pay off the debt over a three- to five-year period. It is certainly not difficult to cull a large number of statements from Ricardo’s writings and correspondence to show how seriously he regarded the problem of Britain’s debt. Along with the Corn Laws, it was one of the ‘two great evils’ plaguing the nation. It was ‘one of the most terrible scourges...ever invented to afflict a nation’, and ‘the overwhelming incumbrance which palsies all our efforts’. Left to his own devices, he would not only pay off the debt entirely, but would ‘never allow any new debt, on any pretence whatever, to be contracted’. Capital flight was one of his chief fears: there were ‘limits to the price, which in the form of perpetual taxation, individuals will submit to pay for the privilege merely of living in their native country’. At times, he seems to have believed that forced repudiation could not be far away.

On some related issues, however, Ricardo was not inclined to endorse popular fears. Interest payments, and the taxes needed to raise funds for that purpose, were merely a case of left-hand/right-hand transfer from tax-payers to debt-holders that left national wealth

41 Ricardo, Works, V. p. 55
42 Ibid., IV. p. 197; VIII. p. 157.
43 Ibid., VIII. p. 187.
44 Ibid., I. p. 249.
45 Ibid., VIII. p. 158.
untouched.\textsuperscript{46} By treating the primary problem as one that centred on the original loan and its effects in reducing the demand for labour, Ricardo added emphasis to Smith’s analysis. Yet, as might be expected from the way in which Ricardo acquired his own fortune, he had no fear of a sinister monied interest -- though he was prepared to endorse criticisms of a gambling mentality when put to him by McCulloch. Nor was he impressed by another popular political argument associated with Cobbett and some spokesmen for the landed interest, namely that the deflation which followed resumption of cash payments in 1819 had led to a redistribution of income in favour of that ‘devouring monster’, the stock-holder.\textsuperscript{47}

Although there is a Smithian warrant for Ricardo’s position, it is also necessary to consider those pervasive divergences of opinion and emphasis that can partly be traced to theoretical innovations associated with the Ricardian growth model, and partly to an uncertain mixture of altered circumstance and differing politics. The theory of public finance (expenditure as well as taxation) to be found in Book V of the \textit{Wealth of Nations}, embryonic though it may be by modern standards, is missing in Ricardo’s \textit{Principles}.\textsuperscript{48} It is clear that Ricardo’s views on taxation were driven by the conclusions of his growth model: taxes ‘must either lessen accumulation, or force the contributors to save the amount of the tax, by making a corresponding diminution of their former unproductive consumption of the necessaries and luxuries of life’.\textsuperscript{49} What is less obvious, perhaps, is the effect of Ricardo’s assumptions on the subject of capital scarcity, and on the relationship between capital accumulation and the causes and consequences of falling profit rates, in generating a change of priorities. The theory of profit decline was one of the distinctive marks of the ‘new political economy’ advanced by Ricardo and his followers, with the treatment of the negative effects of public debt being exactly analogous with those associated with the Corn Laws. By Ricardo’s standards, Smith’s position on the relationship between falling profits and

\textsuperscript{46} \textit{Ibid.}, I, pp. 244-6.
\textsuperscript{47} See \textit{Ibid.}, IV, pp. 229-30.
capital accumulation was not merely erroneous, but complacent in its assumption that low profits could not prevent a nation with a large capital stock from advancing. In a nutshell, Smith’s position was that falling profits should be welcomed both as a sign of progress and of effective competition between capitalists, with no serious consequences for future accumulation because ‘[a] great stock, though with small profits, generally increases faster than a small stock with great profits.’

Whereas Smith’s work breathes confidence in the curative properties of private parsimony, then, Ricardo’s is dominated by anxieties about any reduction in the capital stock and the effects of falling profits in undermining both the source and motive for accumulation. This was another case where Ricardo bent the analytical rod in a polemical direction that suited his policy priorities. There is certainly a stark, almost Manichaen, contrast between his doom-laden remarks on the effects of debt and the Corn Laws, and his optimism regarding Britain’s prospects in the absence of such impediments. Ricardo’s fears of capital flight are more frequently and stridently expressed than Smith’s. It is also significant that Ricardo did not pay any attention to that side of Smith’s solutions which entailed increasing tax revenues in peace-time; and that he was far more hostile on grounds of principle to solutions that involved the sinking fund.

Circumstances, actual and polemical, play another part here. Unlike Smith, Ricardo had to face a variety of advocates of under-consumptionist and pro-étatiste positions -- with the latter urging that the state should make full use of the borrowing powers it had mobilised to defeat Napoleon for ‘public’ purposes in peace. These two categories of politico-economic heresy overlapped, if only at their edges. Malthus, a moderate Whig, supported the former position, while Robert Southey, an ultra-Tory, belongs to the latter category. What the two cases had in common was a belief that there were circumstances, particularly evident during

---

50 WN, Lix.11.

51 See for example, ibid., I. 247-8; V, pp. 32-3; 38-9, 187-8; VII, pp.171, 259-60; VIII, p. 358.

52 Southey’s ideas were most fully expounded in his Sir Thomas More: or Colloquies on the Progress and Prospects of Society, 2 volumes, London, 1831; see I, pp. 182-3,189, 192-4. This was merely a restatement of positions he had upheld in other writings, particularly for the Quarterly Review, during and after the war.
the post-war depression, in which increasing or maintaining civil public expenditure was
defensible as an offset to falling military spending.

Malthus was to lend influential support to these heterodox positions when he expounded
his ideas on effectual demand as a component of stable growth, and as part of his explanation
for the duration of the post-war depression, in his *Principles of Political Economy* (1820).
With regard to national debt, Malthus argued that the ‘personal services’ consumed by
public creditors were indirectly productive by virtue of their contribution to demand.53 The
distribution of income, and the savings and consumption habits of different types of income
recipient, assumed an importance for Malthus that they did not have in Ricardo’s system.
Those in receipt of interest on national debt, he said, ‘contribute powerfully to distribution
and demand; they frequently occasion a division of property more favourable to the progress
of wealth than would otherwise have taken place; they ensure that consumption which is
necessary to give the proper stimulus to production’. Under normal circumstances, Malthus
accepted that governments should not alter the ‘natural’ distribution of wealth, but if an
unnatural distribution has already been effected through war and debt, ‘it would surely be
most unwise to attempt...a return to the former distribution, without very fully considering
whether, if it were effected, it would be really advantageous’. Perhaps more would be lost ‘by
the want of consumption than gained by the diminution of taxation.’54 At the very least, or so
Malthus argued, there was a case for avoiding rapid reduction of public spending, retirement
of existing debt, and removal of taxes in post-war circumstances.

When it came to combatting such ideas, Ricardo was able to tread in the footsteps of
other post-Smithian authors, notably James Mill, who had countered the neo-physiocratic and
underconsumptionist arguments of the Earl of Lauderdale and William Spence in *Commerce
Defended* in 1808 by invoking what has become known as Say’s Law. *Commerce Defended*
was as much the work of a ‘peacemonger’ as it was an attempt to uphold Smith’s position
under novel circumstances. For both purposes it was necessary to attack those, like Spence,

53 See *Principles of Political Economy* edited by J. M. Pullen, 2 volumes, Cambridge, 1989, I, pp. 43, 479-88. See also T.
54 See *Principles*, I, p. 481.
who maintained that the national debt, and the alienation of the sinking fund proposed by
Henry Petty, far from harming the national interest, were ways of offsetting excess capital
accumulation.\(^{55}\)

The case against sinking funds that were not genuinely grounded in a policy of achieving
regular budgetary surpluses had been expounded lucidly by Robert Hamilton in his *Inquiry
concerning the Rise, Progress, Redemption, Present State and Management of the National
Debt* (1813, 3rd edition, 1818). It was this work that made Ricardo more than usually modest
about undertaking the article on the ‘Funding System’ for the *Supplement to the Encyclopedia
Britannica*: what could he say that had not already been better said by Hamilton?\(^{56}\) When
Ricardo allowed his scruples to be overcome, however, what seems significant is the way
in which he treated the sinking fund as little more than a war fund, and answered post-war
advocates of public spending by expounding Say’s Law.\(^{57}\)

Responding to Malthus’s *Principles* provided Ricardo with another opportunity to
rehearse those issues which divided his own ideas on the macroeconomic stability of modern
economies from those of his friend. Ricardo’s notes on Malthus show how quick he was
to appreciate the insidious political implications of Malthus’s arguments on general gluts
and for ‘managing’ public expenditure. From Ricardo’s point of view, Malthus’s proposals
for maintaining unproductive expenditure were akin to advocating that stocks of productive
goods be destroyed, or that the army should be increased in size and the pay of all civil
servants doubled.\(^{58}\) Malthus was lending support to the unproductive spending activities
of a corrupt form of government whose expenditures were already inflated by war. Clear
hinds of the political animus that lies behind Ricardo’s position can also be found in his

---

56 See *Works*, IV, p. 145. Hamilton’s central conclusion on sinking funds was as follows: ‘The excess of revenue above expenditure is the only real sinking fund by which the public debt can be discharged. The increase of the revenue, or the diminution of expense, are the only means by which this sinking fund can be enlarged, and its operations rendered more effectual; and all schemes for discharging the national debt, by sinking funds operating by compound interest, or any other manner, unless so far as they are founded upon this principle, are illusory.’ *Rise of the National Debt*, as reprinted in J. R. McCulloch’s *Select Collection of Scarce and Valuable Tracts on the National Debt and the Sinking Fund*, p.459.
58 See *ibid.*, II, pp. 421, 450. As he commented when faced with similar arguments from William Blake: ‘Is war then the interest of the country?’ *Ibid.*, IV, p. 350.
opposition to sinking funds: they might be acceptable under a parliamentary system ‘in more direct sympathy with the people’, but certainly not under the present aristocratic system, with ‘its disposition to ministerial compliance’.59 Ricardo was, of course, echoing the philosophic radicalism of his political mentor, James Mill, for whom ‘good government’ in the Benthamite sense would always mean low taxes and tight control over public expenditure in the interests of the greatest happiness of the greatest number. Ricardo brought superior economic insights and analytical skills to the philosophic radical cause, which is one reason for Mill’s enthusiastic and successful campaign to make him the spokesman for the cause in the House of Commons. Mill was equally successful in educating a son who was capable of upholding the same cause in his journalistic writings against Malthus and other advocates of government expenditure at this time and later.60 ‘Rolling back the state’ as a political and economic entity became a standard radical cause in the early decades of the nineteenth century in a manner that it had not been for Smith writing in the third quarter of the eighteenth century. Ricardo’s political economy enabled the philosophic radicals to claim that they had the most sophisticated weapons for fighting this cause.

IV

Were it not for recent efforts to portray Ricardo as holding political opinions of a more independent and more radical kind than James Mill, this conclusion would appear to be unexceptionable to the point of blandness.61 More significantly perhaps, why, pace Schumpeter, would anyone but the most dedicated believer in the positive/normative distinction believe that a meaningful case for or against government debt, taxation, and spending could be a matter of pure economic analysis alone, regardless of questions of constitutional legitimacy and the public purposes being served by spending? Nor do we need to follow George Stigler in thinking that unwillingness to apply the assumptions of rational currency.

\[59\] Ibid., V, p. 269.


economic behaviour to politics represents ‘failure’. In saying that political arguments of a systematic kind played a large part in determining attitudes to public debt, however, I wish to distance myself from other kinds of ‘political’ interpretation that have often been applied to the history of economics. Schumpeter thought that politics, like philosophy, was a distraction, perhaps defensible as part of the pre-scientific ‘vision’ of economists, but a dimension that could increasingly be eliminated by the rigours of professional debate. On the other hand, those who regard politics as ‘ideology’, where this is defined as an unconscious set of class allegiances, or as a form of false consciousness, take a more fundamentalist and less optimistic view. Politics becomes something that can only be revealed by a muckraking approach to the biographies of economists in search of sinister personal biases and private interests, or by a mixture of Freudian and Marxian unmasking operations.

Neither of these describes my approach. As the examples of Malthus and Ricardo indicate, the class allegiances of these two members of the professional middle classes tell us practically nothing about their political and economic disagreements. Nor did they involve a distinction between science seen as a quest for public truths, and non-science seen as mere personal foibles. Like political economy, politics was regarded as a science in the long eighteenth century and beyond -- as a body of knowledge that could be articulated with the same confidence as a set of economic principles. Neither Malthus nor Ricardo, and certainly not Hume or Smith, had any difficulty in making public their understanding of the science of politics in this sense. It follows that the political dimension does not need to be unmasked through arcane and indirect methods by more knowing interpreters. At most, it has to be rediscovered and recognised for what it was, no matter how foreign it may appear to be to those whose professional interests are now confined to its economic aspects.

---

63 History of Economic Analysis, pp. 33–44.
64 For defence of this view see my Malthus, Oxford, 1987, pp. 99–103.
65 As has been argued at greater length in S. Collini, D. Winch, and J. Burrow, That Noble Science of Politics: A Study in Nineteenth-Century Intellectual History, Cambridge, 1983.