

ADAM SMITH

II

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

THE GLASGOW EDITION OF THE WORKS AND
CORRESPONDENCE OF ADAM SMITH

*Commissioned by the University of Glasgow to celebrate the bicentenary of
the Wealth of Nations*

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Edited by D. D. RAPHAEL and A. L. MACFIE

II

AN INQUIRY INTO THE NATURE AND CAUSES
OF THE WEALTH OF NATIONS

Edited by R. H. CAMPBELL and A. S. SKINNER; textual editor W. B. TODD

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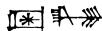
ADAM SMITH

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

GENERAL EDITORS
R. H. CAMPBELL
AND
A. S. SKINNER

TEXTUAL EDITOR
W. B. TODD

VOLUME 2



Liberty Fund
Indianapolis

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Printed in the United States of America

P 20 19 18 17 16 15 14 13 12

Library of Congress Cataloging-in-Publication Data

Smith, Adam. 1723–1790.

An inquiry into the nature and causes of the wealth of nations.

Reprint. Originally published: Oxford : Clarendon Press, 1979.
(Glasgow edition of the works and correspondence of Adam Smith; 2)

Includes indexes.

I. Economics. I. Campbell, Roy Harold. II. Skinner, Andrew S.
III. Title. IV. Series: Smith, Adam, 1723–1790. Works. 1981.

AC7.S59 1981, vol. 2 [HB161] 330.15'3s 81-15578

ISBN 0-86597-006-8 (pbk. : v. 1)[330.15'3] AACR2

ISBN 0-86597-007-6 (pbk. : v. 2)

ISBN 0-86597-008-4 (pbk. : set)

Liberty Fund, Inc.

8335 Allison Pointe Trail, Suite 300

Indianapolis, IN 46250-1684

Cover design by JMH Corporation, Indianapolis, Indiana
Printed & bound by Edwards Brothers, Inc., Ann Arbor, Michigan

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Key to Abbreviations and References

Corr.	<i>Correspondence</i>
ED	'Early Draft' of <i>The Wealth of Nations</i>
EPS	<i>Essays on Philosophical Subjects</i> (which include:)
Ancient Logics	'History of the Ancient Logics and Metaphysics'
Ancient Physics	'History of the Ancient Physics'
Astronomy	'History of Astronomy'
English and Italian Verses	'Of the Affinity between certain English and Italian Verses'
External Senses	'Of the External Senses'
Imitative Arts	'Of the Nature of that Imitation which takes place in what are called the Imitative Arts'
Music, Dancing, and Poetry	'Of the Affinity between Music, Dancing and Poetry'
Stewart	Dugald Stewart, 'Account of the Life and Writings of Adam Smith, LL.D.'
FA, .FB	Two fragments on the division of labour, Buchan Papers, Glasgow University Library.
LJ(A)	<i>Lectures on Jurisprudence</i> : Report of 1762–63.
LJ(B)	<i>Lectures on Jurisprudence</i> : Report dated 1766.
LRBL	<i>Lectures on Rhetoric and Belles Lettres</i>
TMS	<i>The Theory of Moral Sentiments</i>
WN	<i>The Wealth of Nations</i>
<i>Anderson Notes</i>	From John Anderson's Commonplace Book, vol. i, Andersonian Library, University of Strathclyde.

References to Smith's published works are given according to the original divisions, together with the paragraph numbers added in the margin of the Glasgow edition. For example:

TMS I.iii.2.2 = *Theory of Moral Sentiments*, Part I, section iii, chapter 2, paragraph 2.

WN I.x.b.1 = *Wealth of Nations*, Book I, chapter x, section b, paragraph 1.

Astronomy, I.4 = 'History of Astronomy', Section I, paragraph 4.

The Table of Corresponding Passages appended to this volume identifies the sections into which the WN is divided and provides for each paragraph the page references in the Cannan editions of 1930 and 1937.

In the case of the lecture notes we have adopted the following practice: references to the LRBL are given in the form 'LRBL i.8' (=volume i, page 8 of the original manuscript), with references to the Lothian edition (London, 1963) in parenthesis. In the *Lectures on Jurisprudence* we have also cited the volume and page reference from the original manuscript (all of which will be included in the Glasgow edition) while retaining page references to the Cannan edition (Oxford, 1896) where appropriate. References to the *Correspondence* give date of letter and letter number from the Glasgow edition.

CHAPTER VI

Of Treaties of Commerce

- 1 WHEN a nation binds itself by treaty either to permit the entry of certain goods from one foreign country which it prohibits from all others, or to exempt the goods of one country from duties to which it subjects those [324] of all others, the country, or at least the merchants and manufacturers of the country, whose commerce is so favoured, must necessarily derive great advantage from the treaty. Those merchants and manufacturers enjoy a sort of monopoly in the country which is so indulgent to them. That country becomes a market both more extensive and more advantageous for their goods: more extensive, because the goods of other nations being either excluded or subjected to heavier duties, it takes off a greater quantity of theirs: more advantageous, because the merchants of the favoured country, enjoying a sort of monopoly there, will often sell their goods for a better price than if exposed to the free competition of all other nations.
- 2 Such treaties, however, though they may be advantageous to the merchants and manufacturers of the favoured, are necessarily disadvantageous to those of the favouring country. A monopoly is thus granted against them to a foreign nation; and they must frequently buy the foreign goods they have occasion for, dearer than if the free competition of other nations was admitted. That part of its own produce with which such a nation purchases foreign goods, must consequently be sold cheaper, because when two things are exchanged for one another, the cheapness of the one is a necessary consequence, or rather is the same thing with the dearness of the other. The exchangeable value of its annual produce, therefore, is likely to be diminished by every such treaty. This diminution, however, [325] can scarce amount to any positive loss, but only to a lessening of the gain which it might otherwise make. Though it sells its goods cheaper than it otherwise might do, it will not probably sell them for less than they cost; nor, as in the case of bounties, for a price which will not replace the capital employed in bringing them to market, together with the ordinary profits of stock. The trade could not go on long if it did. Even the favouring country, therefore, may still gain by the trade, though less than if there was a free competition.
- 3 Some treaties of commerce, however, have been supposed advantageous upon principles very different from these; and a commercial country has sometimes granted a monopoly of this kind against itself to certain goods of a foreign nation, because it expected that in the whole commerce between them, it would annually sell more than it would buy, and that a balance in gold and silver would be annually returned to it. It is upon this principle

that the treaty of commerce between England and Portugal, concluded in 1703 by Mr. Methuen, has been so much commended.¹ The following is a literal translation of that treaty, which consists of three articles only.

ART. I

- 4 His sacred royal majesty of Portugal promises, both in his own name, and that of his successors, to admit, for ever hereafter, into Portugal, the [326] woollen cloths, and the rest of the woollen manufactures of the British, as was accustomed, till they were prohibited by the law; nevertheless upon this condition:

ART. II

- 5 That is to say, that her sacred royal majesty of Great Britain shall, in her own name, and that of her successors, be obliged, for ever hereafter, to admit the wines of the growth of Portugal into Britain; so that at no time, whether there shall be peace or war between the kingdoms of Britain and France, any thing more shall be demanded for these wines by the name of custom or duty, or by whatsoever other title, directly or indirectly, whether they shall be imported into Great Britain in pipes or hogsheads, or other casks, than what shall be demanded for the like quantity or measure of French wine, deducting or abating a third part of the custom or duty. But if at any time this deduction or abatement of customs, which is to be made as aforesaid, shall in any manner be attempted and prejudiced, it shall be just and lawful for his sacred royal majesty of Portugal, again to prohibit the woollen cloths, and the rest of the British woollen manufactures.

ART. III

- 6 The most excellent lords and plenipotentiaries promise and take upon themselves, that their above-named masters shall ratify this treaty; and [327] within the space of two months the ratifications shall be exchanged.
- 7 By this treaty the crown of Portugal becomes bound to admit the English woollens upon the same footing as before the prohibition, that is, not to raise the duties which had been paid before that time. But it does not

¹ As in a dedication to Methuen's son:

Your father . . . procured for Great Britain that glorious Treaty of Commerce, by which She gained above a Million a Year.

By this Treaty we paid our Armies in *Spain* and *Portugel*, and drew from thence, in the late war, considerable Sums for our Troops in other Parts, without remitting one Farthing from England, and at the same time coin'd in the Tower above a Million of *Portugal* Gold in three years. By this Treaty we gain a greater Ballance from Portugal only, than from any other Country whatsoever . . .

By this Treaty we have increased our Exports thither.'

Charles King, *The British Merchant* (London, 1743), iii.ii. See below, IV.viii.52.

become bound to admit them upon any better terms than those of any other nation, of France or Holland, for example. The crown of Great Britain, on the contrary, becomes bound to admit the wines of Portugal, upon paying only two-thirds of the duty, which is paid for those of France, the wines most likely to come into competition with them. So far this treaty, therefore, is evidently advantageous to Portugal, and disadvantageous to Great Britain.

8 It has been celebrated, however, as a masterpiece of the commercial policy of England. Portugal receives annually from the Brazils a greater quantity of gold than can be employed in its domestick commerce, whether in the shape of coin or of plate. The surplus is too valuable to be allowed to lie idle and locked up in coffers, and as it can find no advantageous market at home, it must, notwithstanding any prohibition, be sent abroad, and exchanged for something for which there is a more advantageous market at home. A large share of it comes annually to England, in return either for English goods, or for those of other European nations that receive their returns through England. Mr. Baretti [328] was informed that the weekly packet boat from Lisbon brings, one week with another, more than fifty thousand pounds in gold to England.² The sum had probably been exaggerated. It would amount to more than two millions six hundred thousand pounds a year, which is more than the Brazils are supposed to afford.³

9 Our merchants were some years ago out of humour with the crown of Portugal. Some privileges which had been granted them, not by treaty, but by the free grace of that crown, at the solicitation, indeed, it is probable, and in return for much greater favours, defence and protection, from the crown of Great Britain, had been either infringed or revoked. The people, therefore, usually most interested in celebrating the Portugal trade, were then rather disposed to represent it as less advantageous than it had commonly been imagined. The far greater part, almost the whole, they pretended, of this annual importation of gold, was not on account of Great Britain, but of other European nations; the fruits and wines of Portugal annually imported into Great Britain nearly compensating the value of the British goods sent thither.

10 Let us suppose, however, that the whole was on account of Great

² See above, IV.i.12. Cf. J. Baretti, *Journey from London to Genoa through England, Portugal, Spain, and France* (London, 1770), i. 67: 'Almost every week a packet sails from Falmouth to Lisbon with only the mail that is sent from London. Mails are not heavy cargoes: but when a packet sails back to England, besides the returning mail, it has . . . so many bags of Portugal-coin, as often account from thirty to fifty, and even sixty thousand pounds sterling.' The circumstances in which Baretti was given the information alone make the quantity seem unlikely, and later he says: 'I have often heard it affirmed with confidence, that from Brazil alone they [the Portugese] draw yearly above two millions sterling.' (Ibid. i.68.)

³ See above, I.xi.g.33.

Britain, and that it amounted to a still greater sum than Mr. Barette seems to imagine: this trade would not, upon that account, be more advantageous than any other in which, for the same value sent out, we received an equal value of consumable goods in return.

11 [329] It is but a very small part of this importation which, it can be supposed, is employed as an annual addition either to the plate or to the coin of the kingdom. The rest must all be sent abroad and exchanged for consumable goods of some kind or other. But if those consumable goods were purchased directly with the produce of English industry, it would be more for the advantage of England, than first to purchase with that produce the gold of Portugal, and afterwards to purchase with that gold those consumable goods. A direct foreign trade of consumption is always more advantageous than a round-about one;⁴ and to bring the same value of foreign goods to the home market, requires a much smaller capital in the one ^away^a than in the other. If a smaller share of its industry, therefore, had been employed in producing goods fit for the Portugal market, and a greater in producing those fit for the other markets, where those consumable goods for which there is a demand in Great Britain are to be had, it would have been more for the advantage of England. To procure both the gold, which it wants for its own use, and the consumable goods, would, in this way, employ a much smaller capital than at present. There would be a spare capital, therefore, to be employed for other purposes, in exciting an additional quantity of industry, and in raising a greater annual produce.

12 Though Britain were entirely excluded from the Portugal trade, it could find very little difficulty in procuring all the annual supplies of gold [330] which it wants, either for the purposes of plate, or of coin, or of foreign trade. Gold, like every other commodity, is always somewhere or another to be got for its value by those who have that value to give for it.⁵ The annual surplus of gold in Portugal, besides, would still be sent abroad, and though not carried away by Great Britain, would be carried away by some other nation, which would be glad to sell it again for its price, in the same manner as Great Britain does at present. In buying gold of Portugal, indeed, we buy it at the first hand; whereas, in buying it of any other nation, except Spain, we should buy it at the second, and might pay somewhat dearer. This difference, however, would surely be too insignificant to deserve the publick attention.

13 Almost all our gold, it is said, comes from Portugal. With other nations the balance of trade is either against us, or not much in our favour. But we should remember, that the more gold we import from one country, the less we must necessarily import from all others. The effectual demand for gold,

^{a-a} 2-6

⁴ See above, II.v.28.

⁵ A similar point is made at II.iii.24 and IV.iii.c.7.

like that for every other commodity, is in every country limited to a certain quantity.⁶ If nine-tenths of this quantity are imported from one country, there remains a tenth only to be imported from all others. The more gold besides that is annually imported from some particular countries, over and above what is requisite for plate and for coin, the more must necessarily be exported to some others; and the more, that most insignifi-^[331]cant object of modern policy, the balance of trade, appears to be in our favour with some particular countries, the more it must necessarily appear to be against us with many others.

14 It was upon this silly notion, however, that England could not subsist without the Portugal trade, that, towards the end of the late war, France and Spain, without pretending either offence or provocation, required the king of Portugal to exclude all British ships from his ports, and for the security of this exclusion, to receive into them French or Spanish garrisons. Had the king of Portugal submitted to those ignominious terms which his brother-in-law the king of Spain proposed to him, Britain would have been freed from a much greater inconveniency than the loss of the Portugal trade, the burden of supporting a very weak ally, so unprovided of every thing for his own defence, that the whole power of England, had it been directed to that single purpose, could scarce perhaps have defended him for another campaign. The loss of the Portugal trade would, no doubt, have occasioned a considerable embarrassment to the merchants at that time engaged in it, who might not, perhaps, have found out, for a year or two, any other equally advantageous method of employing their capitals; and in this would probably have consisted all the inconveniency which England could have suffered from this notable piece of commercial policy.

15 The great annual importation of gold and silver is neither for the purpose of plate nor of ^[332]coin, but of foreign trade. A round-about foreign trade of consumption can be carried on more advantageously by means of these metals than of almost any other goods. As they are the universal instruments of commerce, they are more readily received in return for all commodities than any other goods; and on account of their small bulk and great value, it costs less to transport them backward and forward from one place to another than almost any other sort of merchandize, and they lose less of their value by being so transported. Of all the commodities, therefore, which are bought in one foreign country, for no other purpose but to be sold or exchanged again for some other goods in another, there are none so convenient as gold and silver.⁷ In facilitating all the different round-about foreign trades of consumption which are carried on in Great Britain, consists the principal advantage of the Portugal trade; and though it is not a capital advantage, it is, no doubt, a considerable one.

⁶ See above, IV.i.12.

⁷ See above, IV.i.12.

- 16 That any annual addition which, it can reasonably be supposed, is made either to the plate or to the coin of the kingdom, could require but a very small annual importation of gold and silver, seems evident enough; and though we had no direct trade with Portugal, this small quantity could always, somewhere or another, be very easily got.
- 17 Though the goldsmiths trade be very considerable in Great Britain, the far greater part of the new plate which they annually sell, is [333] made from other old plate melted down; so that the addition annually made to the whole plate of the kingdom cannot be very great, and could require but a very small annual importation.
- 18 It is the same case with the coin. Nobody imagines, I believe, that even the greater part of the annual coinage, amounting, for ten years together, before the late reformation of the gold coin,⁸ to upwards of eight hundred thousand pounds a year in gold,⁹ was an annual addition to the money before current in the kingdom. In a country where the expence of the coinage is defrayed by the government,¹⁰ the value of the coin, even when it contains its full standard weight of gold and silver, can never be much greater than that of an equal quantity of those metals uncoined; because it requires only the trouble of going to the mint, and the delay perhaps of a few weeks, to procure for any quantity of uncoined gold and silver an equal quantity of those metals in coin. But, in every country, the greater part of the current coin is almost always more or less worn, or otherwise degenerated from its standard.¹¹ In Great Britain it was, before the late reformation, a good deal so, the gold being more than two per cent. and the silver more than eight per cent. below its standard weight. But if forty-four guineas and a half, containing their full standard weight, a pound weight of gold, could purchase very little more than a pound weight of uncoined gold, forty-four guineas and a half wanting a part of their weight could not purchase a pound weight, [334] and something was to be added in order to make up the deficiency. The current price of gold bullion at market, therefore, instead of being the same with the mint price, or 46*l.* 14*s.* 6*d.* was then about 47*l.* 14*s.* and sometimes about forty-eight pounds. When the greater part of the coin, however, was in this degenerate condition, forty-four guineas and a half, fresh from the mint, would purchase no more goods in the market than any other ordinary guineas, because when they ^bcame^b into the coffers of the merchant, being confounded

^b-^b come 1

⁸ In 1774. See above, I.v.29ff.

⁹ The same figure is cited at II.ii.54 and § 30 of this section.

¹⁰ A similar point is made at IV.iii.a.10. It is remarked at I.v.38 that although the coinage is free in England, a delay in converting bullion into coin is equivalent in effect to the imposition of a small duty.

¹¹ The subjects covered in the remainder of this chapter are also considered above, especially in I.v.29-42.

with other money, they could not afterwards be distinguished without more trouble than the difference was worth. Like other guineas they were worth no more than 46*l.* 14*s.* 6*d.* If thrown into the melting pot, however, they produced, without any sensible loss, a pound weight of standard gold, which could be sold at any time for between 47*l.* 14*s.* and 48*l.* either in gold or silver, as fit for all the purposes of coin as that which had been melted down. There was an evident profit, therefore, in melting down new coined money, and it was done so instantaneously, that no precaution of government could prevent it. The operations of the mint were, upon this account, somewhat like the web of Penelope; the work that was done in the day was undone in the night.¹² The mint was employed, not so much in making daily additions to the coin, as in replacing the very best part of it which was daily melted down.

19 Were the private people, who carry their gold and silver to the mint, to pay themselves [335] for the coinage, it would add to the value of those metals in the same manner as the fashion does to that of plate.¹³ Coined gold and silver would be more valuable than uncoined. The seignorage, if it was not exorbitant, would add to the bullion the whole value of the duty; because, the government having every where the exclusive privilege of coining, no coin can come to market cheaper than they think proper to afford it. If the duty was exorbitant indeed, that is, if it was very much above the real value of the labour and expence requisite for coinage, false coiners, both at home and abroad, might be encouraged, by the great difference between the value of bullion and that of coin, to pour in so great a quantity of counterfeit money as might reduce the value of the government money. In France, however, though the seignorage is eight per cent. no sensible inconveniency of this kind is found to arise from it.¹⁴ The dangers to which a false coiner is every where exposed, if he lives in the country of which he counterfeits the coin, and to which his agents or correspondents are exposed if he lives in a foreign country, are by far too great to be incurred for the sake of a profit of six or seven per cent.

20 The seignorage in France raises the value of the coin higher than in proportion to the quantity of pure gold which it contains. Thus by the edict of January, 1726, the* mint price [336] of fine gold of twenty-four

* See Dictionnaire des Monnoies, 'tom. ii.' article Seignourage, p. 489. par M. Abot de Bazinghen, Conseiller-Commissaire en la Cour des Monnoies à Paris. [Traité des Monnoies et de la jurisdiction de la Cour des Monnoies en forme de dictionnaire (Paris, 1764), ii.589].

^{c-c} tom. i r

¹² In Letter 115 addressed to Lord Hailes, dated 15 January 1769, Smith wrote: 'tho' in my present situation I have . . . nothing to do, my own schemes of Study leave me very little leisure, which go forward too like the web of penelope, so that I scarce see any Probability of their ending.'

¹³ See I.v.39, where exactly this point is made, and also IV.iii.a.10.

¹⁴ In Letter 150 addressed to Smith, dated 1 April 1776, Hume stated that the seignorage was likely to be less than 2 per cent, and cites Necker's *Essai sur la legislation* in support. The seignorage was 3 per cent. See above, I.v.39, IV.iii.a.10.

carats was fixed at seven hundred and forty livres nine sous and one denier one-eleventh, the mark of eight Paris ounces. The gold coin of France, making an allowance for the remedy of the mint, contains twenty-one carats and three-fourths of fine gold, and two carats one-fourth of alloy. The mark of standard gold, therefore, is worth no more than about six hundred and seventy-one livres ten deniers. But in France this mark of standard gold is coined into thirty Louis-d'ors of twenty-four livres each, or into seven hundred and twenty livres. The coinage, therefore, increases the value of a mark of standard gold bullion, by the difference between six hundred and seventy-one livres ten deniers, and seven hundred and twenty livres; or by forty-eight livres nineteen sous and two deniers.

21 A seignorage will, in many cases, take away altogether, and will, in all cases, diminish the profit of melting down the new coin. This profit always arises from the difference between the quantity of bullion which the common currency ought to contain, and that which it actually does contain. If this difference is less than the seignorage, there will be loss instead of profit. If it is equal to the seignorage, there will neither be profit nor loss. If it is greater than the seignorage, there will indeed be some profit, but less than if there was no seignorage. If, before the late reformation of the gold coin, for example, there had been a seignorage of five per cent. upon the coinage, there would have [337] been a loss of three per cent. upon the melting down of the gold coin. If the seignorage had been two per cent. there would have been neither profit nor loss. If the seignorage had been one per cent. there would have been a profit, but of one per cent. only instead of two per cent. Wherever money is received by tale, therefore, and not by weight, a seignorage is the most effectual preventative of the melting down of the coin, and, for the same reason, of its exportation. It is the best and heaviest pieces that are commonly either melted down or exported; because it is upon such that the largest profits are made.¹⁵

22 The law for the encouragement of the coinage, by rendering it duty-free, was first enacted, during the reign of Charles II.¹⁶ for a limited time; and afterwards continued, by different prolongations, till 1769, when it was rendered perpetual.¹⁷ The bank of England, in order to replenish their coffers with money, are frequently obliged to carry bullion to the mint; and it was more for their interest, they probably imagined, that the coinage should be at the expence of the government, than at their own. It was, probably, out of complaisance to this great company that the government

¹⁵ The melting of coin is stated to have been a felony in LJ (A) v.75, vi.147, and LJ (B) 257, ed. Cannan 201.

¹⁶ 18 and 19 Charles II, c.5 (1666) in *Statutes of the Realm*, v. 598-600; 18 Charles II, c.5 in Ruffhead's edition. See above, I.v.38.

¹⁷ Various temporary provisions were made perpetual by 9 George III, c.25 (1769). The Act gave £15,000 for expenses in connection with the coinage, not £14,000 as Smith states below, IV.vi.31.

agreed to render this law perpetual. Should the custom of weighing gold, however, come to be disused, as it is very likely to be on account of its inconveniency; should the gold coin of England come to be received by tale, as it was before the late re-coinage, this great company may, perhaps, find [338] that they have upon this, as upon some other occasions, mistaken their own interest not a little.

- 23 Before the late re-coinage, when the gold currency of England was two per cent. below its standard weight, as there was no seignorage, it was two per cent. below the value of that quantity of standard gold bullion which it ought to have contained. When this great company, therefore, bought gold bullion in order to have it coined, they were obliged to pay for it two per cent. more than it was worth after the coinage. But if there had been a seignorage of two per cent. upon the coinage, the common gold currency, though two per cent. below its standard weight, would notwithstanding have been equal in value to the quantity of standard gold which it ought to have contained; the value of the fashion compensating in this case the diminution of the weight. They would indeed have had the seignorage to pay, which being two per cent. their loss upon the whole transaction would have been two per cent. exactly the same, but no greater than it actually was.
- 24 If the seignorage had been five per cent. and the gold currency only two per cent. below its standard weight, the bank would in this case have gained three per cent. upon the price of the bullion; but as they would have had a seignorage of five per cent. to pay upon the coinage, their loss upon the whole transaction would, in the same manner, have been exactly two per cent.
- 25 [339] If the seignorage had been only one per cent. and the gold currency two per cent. below its standard weight, the bank would in this case have lost only one per cent. upon the price of the bullion; but as they would likewise have had a seignorage of one per cent. to pay, their loss upon the whole transaction would have been exactly two per cent. in the same manner as in all other cases.
- 26 If there was a reasonable seignorage, while at the same time the coin contained its full standard weight, as it has done very nearly since the late re-coinage, whatever the bank might lose by the seignorage, they would gain upon the price of the bullion; and whatever they might gain upon the price of the bullion, they would lose by the seignorage. They would neither lose nor gain, therefore, upon the whole transaction, and they would in this, as in all the foregoing cases, be exactly in the same situation as if there was no seignorage.
- 27 When the tax upon a commodity is so moderate as not to encourage smuggling,¹⁸ the merchant who deals in it, though he advances, does not

¹⁸ See below, V.ii.k.27, and V.ii.b.6, where it is remarked that an injudicious tax offers a 'great temptation to smuggling'. Cf. IV.iii.a.1.

properly pay the tax, as he gets it back in the price of the commodity. The tax is finally paid by the last purchaser or consumer. But money is a commodity with regard to which every man is a merchant. Nobody buys it but in order to sell it again;¹⁹ and with regard to it there is in ordinary cases no last purchaser or consumer. When the tax upon coinage, therefore, is so moderate as not to encourage false [340] coining, though every body advances the tax, nobody finally pays it; because every body gets it back in the advanced value of the coin.

- 28 A moderate seignorage, therefore, would not in any case augment the expence of the bank, or of any other private persons who carry their bullion to the mint in order to be coined, and the want of a moderate seignorage does not in any case diminish it. Whether there is or is not a seignorage, if the currency contains its full standard weight, the coinage costs nothing to any body, and if it is short of that weight, the coinage must always cost the difference between the quantity of bullion which ought to be contained in it, and that which actually is contained in it.
- 29 The government, therefore, when it defrays the expence of coinage, not only incurs some small expence, but loses some small revenue which it might get by a proper duty; and neither the bank nor any other private persons are in the smallest degree benefited by this useless piece of publick generosity.
- 30 The directors of the bank, however, would probably be unwilling to agree to the imposition of a seignorage upon the authority of a speculation which promises them no gain, but only pretends to insure them from any loss. In the present state of the gold coin, and as long as it continues to be received by weight, they certainly would gain nothing by such a change. But if the custom of weighing the gold coin should ever go into disuse, as it is very likely to do, and if the gold coin should ever fall into the same state of [341] degradation in which it was before the late re-coinage, the gain, or more properly the savings of the bank, in consequence of the imposition of a seignorage, would probably be very considerable. The bank of England is the only company which sends any considerable quantity of bullion to the mint, and the burden of the annual coinage falls entirely, or almost entirely, upon it. If this annual coinage had nothing to do but to repair the unavoidable losses and necessary ^dwear and tear^d of the coin, it could seldom exceed fifty thousand or at most a hundred thousand pounds. But when the coin is degraded below its standard weight, the annual coinage must, besides this, fill up the large vacuities which exportation and the melting pot are continually making in the current coin. It was upon this account that during the ten or twelve years immediately preceding the

^{d-d} tear and wear *r*

¹⁹ See above, IV.i.18.

late reformation of the gold coin, the annual coinage amounted at an average to more than eight hundred and fifty thousand pounds.²⁰ But if there had been a seignorage of four or five per cent. upon the gold coin, it would probably, even in the state in which things then were, have put an effectual stop to the business both of exportation and of the melting pot. The bank, instead of losing every year about two and a half per cent. upon the bullion which was to be coined into more than eight hundred and fifty thousand pounds, or incurring an annual loss of more than twenty-one thousand two hundred and fifty [342] pounds, would not probably have incurred the tenth part of that loss.

31 The revenue allotted by parliament for defraying the expence of the coinage is but fourteen thousand pounds a year,²¹ and the real expence which it costs the government, or the fees of the officers of the mint, do not upon ordinary occasions, I am assured, exceed the half of that sum. The saving of so very small a sum, or even the gaining of another which could not well be much larger, are objects too inconsiderable, it may be thought, to deserve the serious attention of government. But the saving of eighteen or twenty thousand pounds a year in case of an event which is not improbable, which has frequently happened before, and which is very likely to happen again, is surely an object which well deserves the serious attention even of so great a company as the bank of England.

32 Some of the foregoing reasonings and observations might perhaps have been more properly placed in those chapters of the first book which treat of the origin and use of money, and of the difference between the real and the nominal price of commodities. But as the law for the encouragement of coinage derives its origin from those vulgar prejudices which have been introduced by the mercantile system,²² I judged it more proper to reserve them for this chapter. Nothing could be more agreeable to the spirit of that system than a sort of bounty upon the production of money, the very thing which, it sup-[343]poses, constitutes the wealth of every nation. It is one of its many admirable expedients for enriching the country.

²⁰ The same figure is cited above, § 18.

²¹ The sum given was £15,000. See above, IV.vi.22. In LJ (A) v.77 the cost of coinage is stated to have been £14,000. It is also argued that free coinage was linked to the prejudices of the mercantile system, as represented by Mun, namely, that 'the more money there was in the kingdom, the greater the benefit'. The figure of £14,000 is also given in LJ (A) vi.151 and LJ (B) 260. Metal coinage is described as a much more expensive instrument than paper at II.ii.26; cf. V.iii.81ff.

²² Smith also uses the term 'vulgar prejudice' above, II.iii.25, in reference to the mercantile system.

CHAPTER VII

Of Colonies

PART FIRST

Of the Motives for establishing new Colonies

- 1 THE interest which occasioned the first settlement of the different European colonies in America and the West Indies, was not altogether so plain and distinct as that which directed the establishment of those of ancient Greece and Rome.
- 2 All the different states of ancient Greece possessed, each of them, but a very small territory, and when the people in any one of them multiplied beyond what that territory could easily maintain, a part of them were sent in quest of a new habitation in some remote and distant part of the world; the warlike neighbours who surrounded them on all sides, rendering it difficult for any of them to enlarge very much its territory at home. The colonies of the Dorians resorted chiefly to Italy and Sicily, which in the times preceding the foundation of Rome, were inhabited by barbarous and uncivilized nations: [344] those of the Ionians and Eolians, the two other great tribes of the Greeks, to Asia Minor and the islands of the Egean Sea, of which the inhabitants seem at that time to have been pretty much in the same state as those of Sicily and Italy. The mother city, though she considered the colony as a child, at all times entitled to great favour and assistance, and owing in return much gratitude and respect, yet considered it as an emancipated child, over whom she pretended to claim no direct authority or jurisdiction. The colony settled its own form of government, enacted its own laws, elected its own magistrates, and made peace or war with its neighbours as an independent state, which had no occasion to wait for the approbation or consent of the mother city. Nothing can be more plain and distinct than the interest which directed every such establishment.¹
- 3 Rome, like most of the other ancient republicks, was originally founded upon an Agrarian law, which divided the publick territory in a certain proportion among the different citizens who composed the state.² The course of human affairs, by marriage, by succession, and by alienation, necessarily deranged this original division, and frequently threw the

¹ See below, IV.vii.c.II, where it is pointed out that the Greek colonies seldom acknowledged the authority of the mother country.

² Cf. Montesquieu (*Considerations*, 39): 'The founders of the ancient republics had made an equal partition of the lands. This alone produced a powerful people, that is, a well regulated society.' Cf. LJ (A) i.52 where Smith comments on Greek practice with regard to the division of land in the colonies.

lands, which had been allotted for the maintenance of many different families into the possession of a single person. To remedy this disorder, for such it was supposed to be, a law was made, restricting the quantity of land which any citizen could possess to five hundred jugera, about three hundred and [345] fifty English acres. This law, however, though we read of its having been executed upon one or two occasions, was either neglected or evaded, and the inequality of fortunes went on continually increasing. The greater part of the citizens had no land, and without it the manners and customs of those times rendered it difficult for a freeman to maintain his independency. In the present times, though a poor man has no land of his own, if he has a little stock, he may either farm the lands of another, or he may carry on some little retail trade; and if he has no stock, he may find employment either as a country labourer, or as an artificer.³ But, among the ancient Romans, the lands of the rich were all cultivated by slaves, who wrought under an overseer, who was likewise a slave; so that a poor freeman had little chance of being employed either as a farmer or as a labourer. All trades and manufactures too, even the retail trade, were carried on by the slaves of the rich for the benefit of their masters, whose wealth, authority, and protection made it difficult for a poor freeman to maintain the competition against them.⁴ The citizens, therefore, who had no land, had scarce any other means of subsistence but the bounties of the candidates at the annual elections. The tribunes, when they had a mind to animate the people against the rich and the great, put them in mind of the antient division of lands, and represented that law which restricted this sort of private property as the fundamental law of the republick.⁵ The people be-[346]came clamorous to get land, and the rich and the great, we may believe, were perfectly determined not to give them any part of theirs. To satisfy them in some measure, therefore, they frequently proposed to send out a new colony. But conquering Rome was, even upon such occasions, under no necessity of turning out her citizens to seek their fortune, if one may say so, through the wide world, without knowing where they were to settle. She assigned them lands generally in the conquered provinces of Italy, where, being within the dominions of the republick, they could never form any independent state; but were at best but a sort of corporation, which, though it had the power of enacting bye-laws for its own government, was at all

³ See above III.iv.12 where Smith describes the position of the artizan in the modern state.

⁴ This point is elaborated below, IV.ix.47.

⁵ Smith commented in LRBL ii.157, ed. Lothian 150, that the method used by 'these men, who from their attachment to the populace were called *Populares*, was to propose laws for the equall division of lands and the distributing of corn at the publick charge, or else by largesses and bounties bestowed out of their own private fortune. Of this sort were Clodius, Marius, and others.' See above, 166 n. 4.