

## APPENDIX

### TURGOT'S PRINCIPLE

THE principle on which the argument of this book rests has perhaps only been adopted by Adam Smith and by the economists who preceded him. Turgot stated it clearly and completely in reply to a critical examination by Hume. On two occasions he set himself to prove that all taxes, no matter how they are levied, fall on rent. In one essay he discusses taxes in general, the land tax, and the scheme of valuation in connexion with it; in another he compares the tax on landowners' income with the tax on consumption. Both essays are unfinished! <sup>1</sup>

Daire has some appropriate words on this. Writing in 1844 he says: "There is then even to-day, for honest hearts and serious spirits, a subject well worthy of study in all that Turgot wrote on the most advantageous method of securing the revenues of the State, and of apportioning over the entire community the tribute which it owes to itself to provide for public expenses. Unfortunately, as we shall see, circumstances did not permit the illustrious philosopher to develop completely his ideas on the subject, or we have to regret the loss of part of his learned meditations. These circumstances are a genuine misfortune; for what man was ever more worthy, by his ability and by his character, to speak on taxation

<sup>1</sup> *Œuvres de Turgot*, edited by Eugene Daire, vol. i., pp. 392 and following.

than the virtuous Minister of whom the unfortunate Louis XVI used to say : ' There is no one except him and me who loves the people.' ”

In 1767, however, Turgot, as Intendant of the Province of Limoges, offered a prize for the essay which would show most clearly the effect of indirect taxation on the income of landowners. He sent the subject of the essay to Hume with an outline of his own views, and invited Hume's criticism. This was frankly given in a letter. Turgot replied at some length, and by using very happily the figure of an equilibrium in physics he exhibits the principle perhaps in the clearest possible form. The following is from his letter dated March 25, 1767 :—

“ I should have liked very much to enter into some detail on the subject of taxation, but to reply to your objections it would be necessary, so to speak, to write a book and earn my own prize. I wish only to indicate to you the principle from which I set out, and which I believe to be incontestable. It is that there is no other revenue possible in a State than the sum of the annual productions of the land, that the total amount of the productions is divided into two parts, the one set aside for the production of the following year, which comprises not only the portion of the crops consumed by the agriculturists in kind but in addition all that they use to pay the workmen of every class who labour for them—blacksmiths, wheelwrights, saddlers, weavers, tailors, etc. It includes also their profits and the interest on their advances. The other part is the net produce which the farmer pays to the proprietor, when the person of the latter is distinguished from that of the cultivator, which does not always happen. The proprietor uses it to pay everything in the way of labour.<sup>1</sup> This being granted, the tax which does not bear directly on the proprietor must fall either upon the wage-earners who

<sup>1</sup> *tout ce qui travaille pour lui.*

live upon the net produce, or upon those whose labour is paid on the part of the cultivator. If wages have been reduced by competition to their proper rate, they must increase, and as they cannot increase except at the expense of those who pay, one part falls back on the proprietor for the expenditure in which he engages with his net produce, the other part increases the expenditure of the cultivators, who are therefore obliged to give less to the proprietor. It is then in every case the proprietor who pays.

“ You say I assume that wages increase in proportion to taxes, and that experience proves the falsity of this principle, and you remark with reason that it is not taxes, heavy or light, which determine the amount of wages, but simply the relation of supply to demand. This principle has certainly never been disputed ; it is the only principle which fixes at the moment the price of all the things which have a value in commerce. But we must distinguish two prices, the current price which is settled by the relation of supply to demand, and the fundamental price which in the case of a commodity is what the thing costs to the workman. In the case of the workman's wages the fundamental price is that which the workman's subsistence costs. We cannot tax the man who receives wages without increasing the cost of his subsistence, since he must add to his former expenditure that of the tax. We thus increase the fundamental price of labour. Therefore, although the fundamental price is not the immediate principle of the current value, it is nevertheless a minimum below which it cannot fall. For if a merchant loses on his goods, he ceases to sell or manufacture ; if a workman cannot live by his labour, he becomes a beggar, or he emigrates.

“ That is not all. The workman must secure a certain profit, to provide for accidents, to bring up his family. In a country where trade and industry are free and vigorous, competition fixes this profit at the lowest possible rate. A kind of equilibrium is

established between the value of all the productions of the land, the consumption of the different kinds of commodities, the different kinds of works, the number of men engaged in them, and the amount of their wages.

“Wages can be fixed and remain constantly at a given point only in virtue of this equilibrium, and of the influence which all parts of the society, all the branches of production and commerce have upon one another. This being granted, if we add to one of the weights a movement must be set up throughout the whole machine which tends to restore the old equilibrium. The proportion of the current value of wages to their fundamental value was established by the laws of this equilibrium, and by the combination of all the circumstances in which all the parts of the society are placed. You augment the fundamental value, the circumstances which have previously fixed the proportion which the current value bears to the fundamental value must cause the current value to rise until the proportion is re-established.

“I know that this result will not be sudden, and that there are in every complicated machine frictions which delay the results most infallibly proved by theory. Even with a fluid perfectly homogeneous it takes time for the level to be restored, but it is always restored with time. It is the same with the equilibrium of the values which we are examining. The workman, as you say, exercises his ingenuity to work more or consume less, but all this is temporary. Doubtless there is no man who works as hard as he could. But it is no more natural for men to work as hard as they can than for a cord to be stretched as much as it can be. There is a measure of relaxation necessary in every machine, without which it would run the risk of breaking at any moment. This measure of relaxation in the case of work is fixed by a thousand causes which continue to operate after the tax is imposed, and consequently if by a first effort

the tension had increased, things would not be slow in resuming their natural position.

"What I have said about increasing labour I say also about reducing consumption. Wants are always the same. That kind of superfluity out of which a saving can be made in an extreme case is yet a necessary element in the usual subsistence of the workmen and their families. Molière's miser says that when dinner is laid for five, a sixth can find a meal, but by pushing this reasoning a little further we should quickly fall into absurdity. I add that the diminution of consumption has another very serious effect on the income of the proprietor, by the reduction of the value of commodities and of the products of his land.

"I do not enter into the detail of the objection about foreign trade, which I cannot regard as a very important matter in any country, except in so far as it contributes to increase the revenue from lands, and which, moreover, we cannot tax without causing it to diminish. But time fails me, and I am compelled to finish, although I had many things to say about the inconvenience caused to the consumers by a tax the collection of which is a perpetual interference with the liberty of the citizens. They must be searched in custom-houses, their homes must be entered for levies and excises, not to speak of the horrors of smuggling, and of the sacrifice of human life to the pecuniary interest of the treasury. A fine sermon legislation preaches to highwaymen!"

Apparently Hume did not reply to this argument. Turgot refers to it in two subsequent letters. On March 8, 1768, he wrote: "You have not replied to the long letter which M. Frances conveyed to you last year, and which turned in great part on this subject. In fact, you had something better to do. If people leave you any leisure, I shall be quite ready some day to renew the discussion; for it is a matter which I have at heart, and which I believe admits of proof."

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There has been in recent years some discussion of the question how far Adam Smith was influenced by Turgot and by the Physiocrats generally. Only readers of both can appreciate the extent to which the principle clearly and briefly explained by the French statesman pervades the elaborate work of the Scottish philosopher. "The Physiocrats," says Hasbach, "have played a far more important rôle in the development of Adam Smith than we have hitherto dared to assume. Not only did they for the first time put him in a position to develop a system of theoretical economics that was complete in matter, even if perhaps not in form, but they induced him to apply 'natural law' to economic conditions, and to give to the 'natural order' a far wider extension than had before been attributed to it. And these, indeed, are the very elements which give to Smith's system its sharply defined character."<sup>1</sup>

<sup>1</sup> *Political Science Quarterly*, January, 1898.