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A D A M S M I T H, L. L. D. F. R. S.  
B E I N G A N  
E X A M I N A T I O N O F S E V E R A L P O I N T S O F D O C T R I N E,  
L A I D D O W N I N H I S  
" I N Q U I R Y I N T O T H E N A T U R E A N D C A U S E S O F  
T H E W E A L T H O F N A T I O N S."

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M D C C L X X V I .

The Reader is desired to correct the following Errata, which escaped notice in correcting the Pref-  
Copy from the Manuscript.

P. 13, l. 3, for *more*, read *mere*.

P. 27, l. 26, for *think*, r. *thing*.

~~\_\_\_\_\_~~ *tend*, r. *tends*.

P. 28, l. 24, for *at first that*, r. *that at first*.

P. 34, l. 1, in the note, for *motion*, r. *money*.

P. 45, l. 25, for *great knowledge*, r. *information*.

There are also one or two errors in the pointing, which were not attended to, but which the  
Reader will be so good to rectify.

A

# L E T T E R, &c.

S I R,

W H E N I first saw the plan and superstructure of your very ingenious and very learned Treatise on the Wealth of Nations, it gave me a compleat idea of that system, which I had long wished to see the publick in possession of. A system, that might fix some first principles in the most important of sciences, the knowledge of the human community, and its operations. That might become *principia* to the knowledge of politick operations; as Mathematicks are to Mechanicks, Astronomy, and the other Sciences.

Early in my life I had begun an analysis, of *those laws of motion* (if I may so express myself) which are the source of, and give direction to, the labour of man in the individual; which form that reciprocation of wants and intercommunication of mutual supply that becomes *the creating cause of community*; which give energy, motion, and *that organized form* to the compound labour and operations of that community, *which is government*; which give source to trade and commerce, and are the forming causes of the instrument of it, *money*; of the effect of it in operation, an *influx of riches*, and of the final effect, *wealth and power*. The fate of that life called me off from study. I have however at times (never totally losing sight of it) endeavoured to resume this investigation; but fearing that the want of exercise and habit in those intellectual exertions may have rendered me unequal to the attempt, I am extremely happy to find this executed by abilities superior to what I can pretend to, and to a point beyond that which the utmost range of my shot could have attained. Not having any personal knowledge of the author, or of the part which I now understand he bears in the learned world, I read your book without prejudice.—I saw it deserved a more close and attentive application, than the season of business would allow me to give to it; I have since in the retreat of summer studied it: you have, I find, by a truly philosophic and patient analysis, endeavoured to investigate *analytically* those principles, by which nature first moves and then conducts the operations of man in the individual, and in community: And then, next, by application of these principles to fact, experience, and the institutions of men, you have endeavoured to deduce *synthetically*,

tically, by the most precise and measured steps of demonstration, those important doctrines of practice, which your very scientific and learned book offers to the consideration of the world of business.

Viewing your book in this light, yet seeing, as my reasoning leads me to conceive, some deviations which have misled your analysis, some aberrations from the exact line of demonstration in the deductive part; and considering any errors in a work of that authority, which the learning and knowledge that abounds in yours must always give, as the most dangerous, and the more so, as they tend to mix themselves in with the reasoning and conduct of men, not of speculation, but of business—I have taken the liberty, by stating my doubts to you in this Letter, to recommend a revision of those parts which I think exceptionable.

If these doubts should appear to you to contain any matter of real objection, I should hope those parts might be corrected, or that the bad consequences of those positions, which I conceive to be dangerous, may be obviated. When I first wrote these observations, I meant to have sent them to you, by the interposition of a common friend, in a private letter; but, as I think these subjects deserve a fair, full, and publick discussion, and as there are now in the world of business many very ingenious men, who have turned their minds to these speculations, the making this publick may perhaps excite their ingenuity, and thus become the means of eliciting truth in the most important of all sciences. It may animate even your spirit of inquiry, and lead to further researches. It is not in the spirit of controversy, which I both detest and despise, but in that of fair discussion that I address this to you.

When, in your investigation of those springs, which give motion, direction, and division to labour\*—you state “*a propensity to barter;*” as the cause of this division: when you † say, “that it is that trucking business which *originally* gives occasion to the division of labour;” I think you have stopped short in your analysis before you have arrived at the first natural cause and principle of the division of labour. You do indeed ‡ doubt, “whether this propensity be one of those *original principles* in human nature, of which no farther account can be given; or whether, as seems more probable, it be the necessary consequence of the faculties of reason and speech.” Before a man can have the propensity to barter, he must have acquired somewhat, which he does not want himself, and must feel, that there is something which he does want, that another person has in his way acquired; a man has not a propensity to acquire, especially by labour, either the thing which he does not want, or more than he wants, even of necessaries; and yet nature so works in him, he is so made, that his labour, in the ordinary course of it, furnishes him in the line in which he labours, with more than he wants; but while his labour is confined in that particular line, he is deprived of the opportunity to supply himself

\* B. I. C. II.

† P. 18.

‡ P. 16.

himself with some other articles equally necessary to him, as that which he is in the act of acquiring. As it is with one man, so is it with the next, with every individual, and with all. Nature has so formed us, as that the labour of each must take one special direction, in preference to, and to the exclusion of some other equally necessary line of labour, by which direction of his labour, he will be but partially and imperfectly supplied. Yet while each take a different line of labour, the channels of all are abundantly supplied.

Man's wants and desires require to be supplied through many channels; his labour will more than supply him in some one or more; but through the limitation and the defined direction of his capacities he cannot actuate them all. This limitation, however, of his capacities, and the extent of his wants, necessarily creates to each man an accumulation of some articles of supply, and a defect of others, and is the original principle of his nature, which creates, by a reciprocation of wants, the necessity of an intercommunion of mutual supplies; this is the forming cause, not only of the division of labour, but the efficient cause of that community, which is the basis and origin of civil government; for, by necessarily creating an inequality of accumulation, and a consequential subordination of classes and orders of men, it puts the community under that form, and that organization of powers, which is government. It is this principle, which, operating by a reciprocation of wants in nature, as well as in man, becomes also the source to that intercommunion of supplies, which barter, trade, and general commerce, in the progress of society, give. It is not in the voluntary desires, much less in a capricious "*propensity to barter*," that this first principle of community resides; it is not a consequence of reason and speech actuating this propensity, it is interwoven with the essence of our nature, and is there in the progress of, and as part of that nature, the creating and efficient cause of government; of government as *the true state of nature* to man, not as an artificial succedaneum to an imagined theoretic state of nature.

The pursuing of the Analysis up to this *first principle*, does not immediately, I agree with you, "belong to the subject of your inquiries;" for the doctrine contained in the second chapter of your first book, seems only noted *en passant*, but is no where, either in the course of your Analysis, used, nor applied in the subsequent explications. But as some thirty years ago, I had made this Analysis of the \* *Principles of Polity*; and as I have, in the practical administration of the powers of government, found, that those powers on one hand do, as from the truest source, derive from these principles of nature, and

\* A little Treatise which I wrote when I was very young, and which is very imperfect and incorrect in its manner and composition; but such in the matter and reasoning, as frequent revision and application of the principles to matters in fact, have confirmed me in the conviction of as true, although different from the common train of reasoning in those who follow Mr. Locke's phrases rather than his arguments.

that

that the liberties of mankind are most safely established on them: and as I think that great danger may arise to both, in deriving the source of community and government from passions or caprice, creating by will an artificial succedaneum to nature, I could not but in the same manner, *en passant*, make this cursory remark.

Having established and defined this first operation of man in community, that of *barter*, you proceed to consider the *natural rules* by which this is conducted; what it is which gives *value*; what it is which *measures* the relative or *comparative value*, and hence the doctrine of *price*: and by the intervention of these, *the introduction of money and coin*. As in the former doctrine, I thought you had not pursued the analysis to the real sources of nature; so here, on the contrary, I think you have stretched your doctrine beyond the garb of nature. Some of your more refined doctrines have rather subtilised ideas, as they lie in your mind, than analysed those distinctions which lie in nature. On the first reading the eight first chapters of your first book, in which these matters are treated of, before I came to the use and application of your doctrines in the explication of practice and business, I began to apprehend, that some dangerous consequences in practice might be deduced from theory, instead of those sound and beneficial doctrines which derive through experience, by a true analysis of nature and her principles. I thought I saw, that many mischievous impertinent meddlings might take rise from a distinction between *a natural* and *a market price*. As I had been used to hold that only to be the measure of *exchangeable value*, which the world generally takes and uses as such, money formed of the precious metals; I could not but apprehend, that many extensively dangerous practices might arise from your laying aside, in your Analysis of Money, the idea of its being A DEPOSIT. I saw, that that *theory in metaphysics*, led to a destructive *practice in physics*; to the practice of creating a *circulation of paper*, and of calling such circulation, money; and of introducing it as such. In your doctrine, that "labour is the measure of exchangeable value of all commodities," connected with your mode of explanation of the wages of labour, the profit of stock, the rent of land, and the effect of the progress of improvements, I thought I saw great danger, that Theory, in the pride of rectitude, might harden its heart against the real, though relative, distresses, which the labourer and the landed gentry of a country do suffer, and are oppressed by, *during the progress* of improvement, in consequence of a *continuing influx of riches*; and might therefore depreciate, or even endeavour to obstruct, all those current remedies which give comfort and relief to these distresses, and alleviate even those which cannot be remedied.

Although \* the demand for those who live by wages must naturally increase with the increase of national wealth; and consequently the price of wages rise in proportion to the rise of every thing else; so as that the labourer will in the

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and partake of the general riches and happiness of the publick. Although \* the rise in the price of all produce is in the end no calamity, but the *forerunner* of every publick advantage : Yet as those prices do *forerun*, and must, during the progress of improvement, *always forerun* ; wages and rent must always continue *at an under-value* in the comparison. They will indeed rise also, but as this foreruns, they can only follow, *sed non passibus æquis*. The labourer, and he who lives on rent, therefore, must always, though improving, be unable to improve so fast as to emerge from a continued distress : if this distinction, that a flowing encrease of wealth, although it is the forerunner of every advantage to the publick in general, and *in the end* to every individual, yet is the continuing cause to the continued distress of the labourer, and of him who lives by rent, is not carefully attended to. If the state of the circumstances of distress, which continues to oppress those classes of the community, are not constantly adverted to with feeling, and with exertions of precaution and benevolence, we shall, in the triumph of our general prosperity, be the constant oppressors of those who have the best title to share in this prosperity.

Under these ideas and apprehensions I did very carefully and repeatedly, before I proceeded to the applied doctrines contained in the latter book, revise the analytic part of the former. When I came to the doctrines applied to practice, and the businesses of the world, I found that my cautions had not been unnecessary, and that my apprehensions, that some such consequences might be drawn from it, were grounded : I found also what I did not from the principles expect (nor as yet do I see how they derive from them, as any part of the chain of reasoning) that in the course of the doctrines you hold, you are led to disapprove the law giving a bounty on corn exported ; and also to think, that the monopoly, which we claim in the American trade \*, “ like all other mean and malignant expedients of the mercantile system,” without in the least increasing, doth on the contrary diminish the industry of the country, in whose favour it is established ; and doth, although it may have the seducing aspect of a *relative advantage* †, subject the nation, its trade and commerce, to an absolute disadvantage. I hope you will not think, that I misunderstand, or mean to mis-state, your position. You allow, and very fully explain the great advantages of the colony trade, but think that the monopoly is the reason why, great as it is, we do not derive so great advantages from it to the nation and to the landed interest, and to the community in general, as we might have done, had it not been cramped and perverted by the monopoly.

In the many occasions which I have had to view this monopoly, I own, although I have seen some errors in the extension of the *measure*, further than is expedient or necessary, yet I do not see the malignancy of the principle of a monopoly ; nor while I have lived amidst the daily proofs of the *relative advantage* which it gives to the mother country, by its colonies, over all other  
foreign

\* Pag. 286.

† B. IV. C. VII. P. 201.

foreign nations, I have not been able to discover, nor have your arguments, although so methodically and so clearly drawn out, been able to explain to me, that absolute disadvantage which you think it subjects us to.

Although I agree entirely with you, having also previously read the same opinion in Mr. Necker's Treatise, *sur la Legislation & le Commerce des Graines*, that the bounty which our law gives to the exportation of corn, has not been the sole cause which hath rendered corn cheaper than otherwise it would have been; but, on the contrary, hath, in each direct instance, given it some small advance in the general scale of prices: Yet, considering that so far as it does this, and gives relief to the relative oppression which the landed interest must continue to feel under *a continued influx of riches*, and an advancing rise in the prices of every thing else; I think it one of the wisest measures for a country like England that could be devised.

I think with you, that many of our laws and regulations of trade are practical errors, and mischievous. I think that, while they seem to be founded on our navigation act, they mistake the spirit of it, and no less mistake the real interest of the nation: yet I cannot but hold these to be errors only, as they deviate from the true principle of the act of navigation, which is a different thing from the acts of trade.

Having prefaced thus much as to the several doctrines on which I have conceived some doubts, I will now, following the order of your work, state those doubts. When I found you discarding *metallic money*, that intervening commodity which having, by common consent, acquired a value of its own, hath been hitherto esteemed a common known measure of the value of all other things, from being any longer such common measure, and by a refinement of theory, endeavouring to establish in its place "an abstract notion," *that labour was the common measure of all value*; I did not only doubt the truth of the position, but, looking to the uses that might be made of the doctrine, hesitated on the principle. If labour be the only real and ultimate measure of value, money is but the instrument, like the counters on the checkquer, which keeps the account; if this be all the use of money, then *circulation*, or even *an account opened with a banker* (according to a practice in Scotland, as described by you) is to all uses and ends as good as money. If it is not necessary, that the common measure should have some known permanent value in itself, so as to be a deposit of that absent value which it represents, as well as measures, so as to convey to all who possess it an absolute power of purchase, then indeed the circulating instrument, the machine that circulates, whether it be a paper or a leather one, or even an account, without any *deposit*, is equal to all the uses and end of money, is that which we may safely receive for the future. As I have been mixed in the business of a country, where the evils of this doctrine and practice have been severely felt, and where it was my duty to watch, that nothing was imposed upon the publick as money, but what was either in it-  
self















































































