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XXII.17 On public debts

- The Spirit of Law - Book XXII. On laws in their relation to the use of money -

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Some have believed it was good for a state to be its own debtor ; they have thought this multiplied wealth by increasing circulation.

I believe they have confused circulating paper that represents money, or a circulating paper which is the sign of the profits a company has made or will make on trade, with a paper that represents a debt. The first two are very advantageous to the state ; the last cannot be, and all that can be expected of it is that it be a good security for individuals for the nation's debt, in other words, that it procure its payment. But here are the drawbacks that result from it :

1st.. If foreigners possess many papers representing a debt, they draw from the nation every year a considerable sum in interest.

2nd. In a nation thus perpetually in debt, the exchange must be very low.

3rd. The tax raised to pay the interest on the debt is prejudicial to manufacturing by making labor more expensive.

4th. It takes away the genuine revenues of the state from those who are active and industrious, to transfer them to idle persons, which is to say that it facilitates working for those who do not work, and creates difficulties for working to those who work.

These are the drawbacks ; I am unaware of any advantages. Ten persons each have a thousand crowns in income from land or industry : that makes for the nation, at five percent, a capital of two hundred thousand crowns. If those ten persons use half of their income, in other words five thousand crowns, to pay the interest on a hundred thousand crowns which they have borrowed from others, that still makes only two hundred thousand crowns for the state ; that is, in the language of the algebrists, $200,000 \text{ crowns} - 100,000 \text{ crowns} + 100,000 \text{ crowns} = 200,000 \text{ crowns}$.

What can easily mislead is that a paper that represents the debt of a nation is a sign of wealth, for only a wealthy state can support such a paper without falling into decline ; and if it does not do so, the state must have great wealth from elsewhere. We say there is no harm, because there are resources against that harm ; and we say that the harm is a benefit because the resources surpass the harm.