Steuart and Davenant on Financing Wars
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1. Introduction

James Steuart and Charles Davenant shared a similar view that financing wars are a vital issue for a nation and its economy. Davenant published an Essay upon Ways and Means of Supplying the War (hereafter Essay) in late 1694² during the war with France when there was a pressing question of whether and how England can collect money to continue the war. Steuart prepared much of the latter volumes of the Principles of Political Economy (hereafter Principles) during the seven years’ war and placed war finance at the core of public finance and evolvement of credit in a nation.

The approach they took when discussing how to finance the war was also very similar. Hoppit (1996) adequately named Steuart as one of the writers “who explicitly attempted political arithmetic” in the latter half of the eighteenth century³. Steuart and Davenant both regarded “the Art of Reasoning, by Figures, upon Things relating to Government”⁴ as an effective approach to discussing the economy and public finance. Steuart’s endorsement of political arithmetic makes a decided contrast with Adam Smith who famously wrote: “I have no great faith in political arithmetick”⁵.

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² Waddell 1956, 207.
³ Hoppit 1996, 520.
⁴ Davenant 1701, 2.
⁵ Smith 1776, vol. II. 121.
Steuart and Davenant’s opinion on financing wars, however, differed in most decisive points: the method for financing wars, and the influence of this financing on the nation’s economy. Davenant was against borrowing on perpetual interest; he argued that if the King repeatedly borrowed on perpetual interest it will do great damage and hazard to the Kingdom. Steuart, on the other hand, was of opinion that the nation should take advantage of this long-term credit in times of war; he argues that collecting tax and paying interest for the long-term debt does not necessarily mean a hazard to a nation; it may on many occasions give positive effects to the economy of the nation.

The similarity between Steuart and Davenant on treating war finance and the critical difference of opinion between the two on the method and influence of financing deserves more than a passing notice. Did Davenant’s idea on financing wars have any influence on Steuart? How did Steuart come up with opposite conclusions with Davenant on some central issues regarding war finance? Answers to these questions are vital to larger questions such as the development of political arithmetic in the eighteenth century just before Smith’s Wealth of Nations.

This paper shows how Steuart learned from Davenant and how decisive an impact Davenant’s arguments on public revenues and war finance had on Steuart. Steuart, when reading Davenant’s arguments on the topic, did not hastily deny Davenant’s conclusions on preferable ways to finance wars; rather, he attempted to trace carefully how Davenant came up with his conclusions by examining the circumstance and the spirit of the people at the time when Davenant was writing. And by doing so Steuart was able to shape a clear understanding of how credit drastically developed in Britain since Davenant’s time; and he explains that the difference in opinions between Davenant and him on how to finance wars was due to this drastic change in the circumstances and the spirit of the people. The way Steuart dealt with Davenant’s discussion was a reflection of the core methodology Steuart laid down in Principles: historical methodology in which he says “[t]imes and circumstances must always be examined, before any decision can be passed in political matters”6.

This is important particularly because, between the time when Davenant

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6 Steuart 1760, 12.
wrote Essay and the time when Steuart wrote Principles, England went through the financial revolution: the establishing of the Bank of England in 1694 and the expansion of government long-term borrowing enabled the British government to fund the intermittent war with France\(^7\). This development of Steuart’s theory on public finance marks how the revolution was assimilated and integrated into economic theory in the eighteenth century\(^8\).

### 2. Continuity between Steuart and Davenant

In Part IV “of public credit” in Book IV of Principles, Steuart explains the historical development of public credit in England and France. He begins his explanation on England’s public credit by referring to Davenant’s writing; and when he explains France’s public credit, he begins by referring to Cardinal de Richelieu’s Testament Politique. The reason why he begins with the writings of these two writers was that according to Steuart, the two were the most qualified writers on these topics. Referring to Davenant, Steuart writes:

> No person at that time, whose writings I have seen, appears to have so thoroughly understood those matters [public credit] as Davenant. He was a man of theory, as well as knowledge of facts: he had an opportunity which few people have, to be well instructed in the one and the other; and he turned his talents to the best advantage for promoting the interest of his country. He has writ many tracts on political subjects, which, when carefully read and compared with what experience has since taught us, cast great light upon many questions relative to the subject of this inquiry.

*(Steuart 1767, II 357)*

The fact that Steuart highly praised Davenant for his understanding of public credit is especially important in the light of political arithmetic. Davenant and Steuart both used political arithmetic chiefly to reveal the extent, the method, and the influence of war finance; in the same way Petty used it\(^9\). Davenant wrote

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\(^7\) On the financial revolution in England, see Dickson 1967 and Brewer 1989.  
\(^8\) (comment on Tonks 2011.)  
\(^9\) Although I agree with Hoppit 1996 in categorising Steuart as a political
his Essay and Discourses on the Publick Revenues, and on the Trade of England (hereafter Discourses) when England was fighting a war against France. Ito points out that “[t]he war against France was the starting point” of Davenant’s political economy\textsuperscript{10} which started with his Essay in 1694. Steuart echoes Ito and says “This revenue of 1.570.318. l. [in 1694] was so inconsiderable, and so unequal to the expences [expenses] of the war, that other ways and means were sought after; and this gave occasion to Davenant to write upon that subject”\textsuperscript{11}. Likewise, Steuart was preparing for the latter half of Principles mostly during the seven year’s war with France and he explained public credit and taxes by contrasting those of Britain/England with those of France. Although Principles was published after the war, the potential rivalry between Britain and France remained. Steuart writes: “Britain and France are two nations, rivals in every thing worthy of emulation”\textsuperscript{12}.

Personal circumstances in which Davenant and Steuart applied political arithmetic were also very similar\textsuperscript{13}. Davenant lost his political position after the
1688 revolution; and he wrote Essay and Discourses as a part of an effort to gain a place in the government service\textsuperscript{14}. Similarly, Steuart’s political ambition was scattered after the Battle of Culloden in 1746; and he wrote Principles in an attempt to obtain his full pardon and a better future for his son.

Another similarity between Davenant and Steuart with regard to public finance is their appraisal of Cardinal et Duc de Richelieu, Armand Jean du Plessis (1585-1642), chief minister to King Louis XIII of France, on this topic and their opinion about the authenticity of Richelieu’s posthumously published Testament politique d’Armand Du Plessis, cardinal duc de Richelieu (hereafter Testament).

On Richelieu, Steuart says:

Having laid before my reader the sentiments of Davenant on the subject of public credit, which were analogous to the then state of England, it may be instructive to compare them with those of another very great man, in a rival nation; I mean the Cardinal de Rich[elieu].

(Steuart 1767, II 367)

The authenticity of Testament, however, was fiercely attacked by Voltaire, François-Marie Arouet, in 1749 and later again in 1764. Voltaire insists that numerous evidence shows that Richelieu cannot possibly be the author of Testament. Steuart, fully aware of Voltaire’s attack, nevertheless held an unshakeable belief that Testament was written by Richelieu himself. He says anyone who insists that Testament was not written by Richelieu lacks either the effort or the ability to understand what is written in Testament.

Let us now take a view of the sentiments of a great minister, delivered in writing by himself, in his political testament; the authority of which would never have been called in question, had the matter it contains been properly

\textsuperscript{14} See Waddell 1958 and Hoppit 2004. “[H]e was very perilously placed at the revolution of 1688 and lost all his positions with the advent of the new regime of William and Mary in 1689.” (Hoppit 2004)
attended to, and well understood.

(Steuart 1767, II 368)

This strong statement was Steuart’s direct response to Voltaire’s *Printed Lies and the Political Testament of Cardinal Richelieu* (*Des mensonges imprimés*). We know this because in his manuscript Steuart writes: “[H]ad he [Voltaire] been at the trouble to examine before he refuted, he would not have said so much against the 9th chapter [of *Testament Politique*], which he has not understood”.

Davenant had an identical opinion about Richelieu and his *Testament*. He highly praises Richelieu in *Essay* that “the foundation of the present Greatness of that Monarchy [France], were laid by Cardinal Richelieu” (1701, 8). Ito (2011) describes that “Davenant therefore turned to Cardinal Richelieu, particularly his posthumous *Testament Politique* (published in 1688) as a guide to good management in financing the war against France”, and that “[a]lthough Davenant credited William Petty as the founder of political arithmetic in his Discourses on the Publick Revenues, and on the Trade of England (1698), his conception of political arithmetic as an instrument of the able statesman comes from Richelieu”\(^\text{15}\). This further confirms that Steuart and Davenant shared the common basis for their argument on public credit. We may, therefore, point out a clear connection between Richelieu, Davenant, and Steuart in terms of political arithmetic.

3. Disparity between Steuart and Davenant

Steuart’s hearty applause for Davenant, however, does not mean that Steuart agreed with most of Davenant’s arguments. In fact, Steuart differed from Davenant on numerous points, such as the reasonable base for taxation or estimation of the amount of debt French government owed in 1697. Most notable difference between Steuart and Davenant, on the principles of public credit and public finance, was their views on the appropriate method of financing wars and its influence on the economy.

According to Davenant government may raise money for the war either by:

\(^{15}\) Ito 2011, 42.
raising necessary amount of money within the year,
- anticipation, which is borrowing money for a few years, or
- funding, which is borrowing money upon perpetual interest.

Davenant strongly supports the state to repay its borrowing within the year; he, on the contrary, strongly opposes borrowing upon perpetual interest, calling it cancer that will eat into the body politic.

'Tis true, sinking the Principal, or long Fonds, may give us present Ease; but they are a Canker, that in process of Time, will eat into the Body-Politick.

In all probability, for the foregoing Reasons, it will be better Thrift, to exert our selves strongly, in the beginning, to pay off the Principal Debt, than to leave it a constant Burthen upon the Land, and Trade of England.

(Davenant 1698, 202)

Giving the King Money by Anticipating the Customs, or by Credit, upon distant Fonds, does apparently consume the Publick with Usury: The new Fonds entail upon us a heavy Debt of perpetual Interest.

(Davenant 1701, 39)

Steuart, on the other hand, had a fundamentally different view. Steuart highlights in his definition of public credit that a state does not necessarily have to pay back the money she borrowed.

3tio, Public credit. This is established upon the confidence reposed in a state, or body politic, who borrow money upon condition that the capital shall not be demandable; but that a certain proportional part of the sum shall be annually paid, either in lieu of interest, or in extinction of part of the capital; for the security of which, a permanent annual fund is appropriated, with a liberty, however, to the state to liberate itself at pleasure, upon repaying the whole; when nothing to the contrary is stipulated.

(Steuart 1767, II 142)

As to the influence of public debt on the economy, Steuart says that “the debts they [states] owe, when due to citizens, are on the whole, rather advantageous than burdensome: they produce a new branch of circulation
among individuals, but take nothing from the general patrimony”\textsuperscript{16}.

But how did Steuart, starting from common grounds with Davenant on public credit, end up with conclusions on these core issues opposite from Davenant? To answer this question, we need to follow Steuart’s footsteps and see how Steuart absorbed and assimilated the writings of Davenant in order to develop his theory of public credit.

4. Steuart’s departure from Davenant’s reasoning

Steuart began his study on French government’s revenue and expenditure in 1748 when he was settled in the province of Angoumois, France. This study eventually lead to his \textit{Principles}\textsuperscript{17}. He seems to have started writing \textit{Principles} in 1756\textsuperscript{18}. But it was not until 1760 that Steuart had a chance to closely study

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\item[\textsuperscript{16}] Steuart 1767, II 625. Akhtar also points out: “Unlike every other writer since Davenant’s \textit{Essay Upon Ways and Means} in 1695 (up to and including Adam Smith, David Hume, and most of the classical economists), Steuart regarded public debt as fundamentally different from private debt, in its nature and effects. He believed that ‘while the debts of a nation are due to its own subjects ... it is a contradiction to suppose that a nation can become bankrupt to itself’ and noted that ‘if the spirit of the people prove compatible with the system of borrowing and supporting public credit [debt] to the utmost extent, the whole income of the nation will remain in perpetual fluctuation passing from one set of creditors to another, the statesman still retaining the administration of it for their use’. In practice, however, ‘a thousand accidents may, and certainly will, put an end to the public credit’ before this can happen. Therefore, the ultimate limit to the public debt is the socio-political structure.” (Akhtar 1979 294-95)
\item[\textsuperscript{17}] Steuart writes to Sir George Colebrooke in October 1780: “I had the misfortune to live in Exile many years in that Country [France], and having nothing to do, I devoted myself to study. The Political Œconomy contains most of the fruits of it. / As you wish an Idea of the present resources of France, I can only recommend to you the same Method which I followed myself in complying the list of the Revenue and of the expenditure to which I have alluded.” (Furuya 2014a 8)
\item[\textsuperscript{18}] Tribe seems to suggest that Steuart started writing \textit{Principles} in 1755: “ Here he continued the work that had begun in 1755 on the manuscript which was later to become the Inquiry” (Tribe 1988 137). He here refers to General Sir James Steuart [Chalmers] 1805 371 but I was not able to find any indication of it there. The reasons for my guess that Steuart started writing in 1756 are as
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Davenant’s *Essay* and *Discourses*. This can be confirmed from two sources.

First, in 1759 Steuart completed his first draft for Book I and II of *Principles*. In this draft, Steuart cites Davenant four times and all four of those were taken from the same secondary source. “As I write under circumstances not the most favourable for having recourse to books, I must imploy those I have. The article of Mr. Chambers’s Cyclopaedia furnishes me with some extracts from Sir Will: Petty and Dr. Davenant in the article Political Arithmetic, which I here intend to imploy, towards pointing out a solution of the question proposed”\textsuperscript{19}. Internal evidence suggests that the original manuscript of this passage was written in or before 1757.

Secondly, after he completed his first draft for Book I and II of *Principles*, in 1760, Steuart was preparing for the latter half of *Principles* where he discusses money, credit, and taxes. During that year, he wrote an extensive annotation on Davenant’s *Essay* and *Discourses*\textsuperscript{20}. We may, therefore, conclude that in 1757 Steuart did not have *Essay* and *Discourses* but by 1760 he obtained his copy\textsuperscript{21} of the two books so he can use them to prepare for his theory on credit and taxes\textsuperscript{22}. Steuart carefully examined Davenant’s argument and made nearly

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follows. First, in Book I Chapter II of *Principles* Steuart writes: “This was writ in the year 1756, about the time the island of Minorca was taken by the French” (Steuart 1767 I 12). This was only 3700 words from the beginning. Second, Steuart and his party were busy changing places to live numerous times in the latter half of 1755 because of the war between Great Britain and France. On the contrary, Steuart seems to have plenty of time to start writing *Principles* in the first five months of 1756 because his wife Fanny and their son Jamy was away to England and Scotland. I reiterate that Steuart’s study towards *Principles* began in 1748. In October 1766 he writes “It [Principles] is the fruit of eighteen years close, though agreeable application interrupted only by many intervals of bad health, and many strokes of adverse fortune.”

\textsuperscript{19} Steuart 1759. This passage corresponds to Steuart 1767 I 41.
\textsuperscript{20} The manuscript was held privately until 1988 and has hardly been considered. It will soon be published.
\textsuperscript{21} At least *Discourses* was Steuart’s own copy. “I have made some small observations upon the margin of my copy, which require to be extended” (Steuart 1760 116).
\textsuperscript{22} I conjecture that *Essay* and *Discourses* were included in the set of books he asked his friends in Paris to buy and send to him in Tubingen. According to Charles Whitworth, Davenant’s works were “so very scarce and valuable” in those days (1771 v).
twenty thousand words annotation\textsuperscript{23}.

Although Steuart did not agree with everything Davenant wrote, he was aware of the importance of Davenant and his works. Steuart wrote, after reading \textit{Essay}, that “\textit{u}pon the whole, Davenant is an excellent writer for the age he lived in”\textsuperscript{24}. And what this annotation reveals us is that Steuart, as he reads Davenant’s \textit{Essay} and \textit{Discourses}, learns the circumstance and the sentiment of Davenant’s time; and by doing so, Steuart re-examines and gradually refines his understanding of how trade and credit developed during the last six decades.

For instance, by examining Davenant’s passage where he laments how money is not circulating, Steuart learns how interests were not regularly paid, how tallies, wooden exchequer notes, were heavily discounted, and how money was locked up and not lent.

Upon the conclusion of the war with france [France] by the peace of Ryswic\textsuperscript{k, 1697}, I find that Credit in England was very low. Interest had not been regularly pay’d [paid], which is reason enough for such an event. The consequence of this was that the public paper and tallies sold at discount, and money was locked up.

\textit{(Steuart 1760 123)}

This was strikingly different from the reality of Steuart’s age. Steuart applies here the historical framework he presented in Book I and Book II and understands the difference between credit in Davenant’s time and credit in his time in the context of the development of the system of modern political economy. “\textit{O}nce Credit, trade & industry are introduced”, says Steuart, “\textit{n}o body keeps money”. Instead, they will lend the money and get interest for it. “\textit{M}oney, now, can never lye dead”. And by the same token, it will be much easier for the borrower to get money (1760 154-55).

\textsuperscript{23} The original annotations were written in 1760 in Tubingen. This year Robert Darcy, 4th Earl of Holderness, then Secretary of State for the North Department, worked hard to bring Steuart back to Britain. Steuart sent a petition to King George II by way of Lord Holderness but unfortunately the King deceased in October. In 1765 when Steuart was writing his fnal draft of the \textit{Principles}, he asked his amanuensis to transcribe these annotations into one notebook; this notebook is the manuscript we have today.

\textsuperscript{24} Steuart 1760 122.
As credit was not yet established, it is no surprise that people’s common understanding about public debts at this time was “very ill digested.” Steuart judges, by the calculation of debts and Davenant’s effort to correct people’s misunderstanding, that “I must here observe that it must have been a common opinion at this time, with many people, that when a state borrowed money upon an assignation, to the creditor, of some sort of duty imposed on the people; that such borrowing did not constitute a debt” (1760 133).

One important issue that is brought to the surface, by examining Davenant’s criticism against long-term borrowing, is the development and the function of one key class in the modern society: that is, monied interest. Davenant, in his *Discourses*, says “tis probable” that there are group of lenders who “would be willing to supply the Government with a considerable Loan, and to stay for their Principal the whole Eight Years” (1701 260). Steuart cites this passage and candidly expressed his amazement: “how matters are changed! no moneyed interest here surely” (1760 149). By noting that if, between Davenant’s time and Steuart’s time, the British government did not engage in long-term borrowing, there would still be no monied interest, Steuart says:

[W]hat would he [Davenant] have said, had he lived in our days! [H]e argues against that Scheme [long-term borrowing], and is for falling vigorously to work, and paying off the Capital as fast as possible.

The discussion of that question is a curious problem in politics. A nation who would follow Davenants opinion could never have a monied interest. We must therefore [...] examine all the Consequences of having a monied interest in a state.

(Steuart 1760 138-39)

Steuart reasons that monied interest, credit, huge long-term government borrowing, and extensive tax system all needed to grow hand in hand; and this growth, by degrees, formed Great Britain’s system of economy in Steuart’s time. It is a system of economy that can smoothly process the fluctuation of the demand for government borrowing which is caused by alternation of war and peace. According to Steuart, huge long-term government borrowing is not an isolated variable in an economy; government borrowing cannot simply be removed from or attached to an economy without reshaping the whole structure.
of that economy.

5. Rational assimilation of the financial revolution

Through the perusal of Davenant’s *Essay* and *Discourses*, Steuart was able to understand why Davenant opposed to long-term government borrowing at the time he wrote. In the printed edition of Principles Steuart summarised the circumstances which lead Davenant to oppose long funds into four points. Firstly, the interest rate was high. At the peace of Ryswick in 1697, England had 3 and a half million Pound Sterling debt in long funds. More than one-third of this debt was to be paid in lifetime annuity of 14% and the rest of the debt was borrowed in the perpetual interest of over 11%. Secondly, it was still difficult to raise taxes in Davenant’s time. Thirdly, the supply of money did not meet the demand mainly because circulation was confined to the coin. Fourthly, trade at that time was only beginning to take root in England; it demanded money and profits on trade were great. All these circumstances altered during the following six decades and lead Britain to a different stage of the economy.

Steuart also came to clearly understand that it was the time when Davenant was writing that the significant development in public finance started to take place. In the manuscript, Steuart already used an expression such as “[i]t is not as yet 60 years, that states have begun to borrow in a regular manner” (1760 155). In the printed edition of *Principles*, he takes a step further and calls it the era of public credit: “about the time of the revolution in 1688, which I may take to be the æra of public credit in England” (1767 II 357).

And Steuart endorsed this new system of public finance not only from an economical point of view. He also stresses the political significance of this new system where the government was regularly engaged in long-term borrowing25.

25 There was a controversy in eighteenth century Britain on how to evaluate public debt which was piling up mainly because of the war. Compare Steuart’s view with that of Hume’s: “our modern expedient, which has become very general, is to mortgage the public revenues, and to trust that posterity will pay off the incumbrances contracted by their ancestors: [...] If the abuses of treasures be dangerous [...] the abuses of mortgaging are more certain and inevitable; poverty, impotence, and subjection to foreign powers.” “The practice, therefore, of contracting debt will almost infallibly be abused, in every
He regarded this long-term borrowing as a vital innovation; an innovation that may serve to a nation as a decisive tool to out win her opponent in a war and survive as a nation.

The borrowing of states (who have no provision made) and the expense of their war, being therefore pretty near equal; that state whose credit fails the first, must succumb.

(Steuart 1760 155)

Seven years later, in the printed edition of Principles, Steuart elaborates this point and underlines that the innovations on ways to further finance wars are a matter of important national competition:

As long as nations at war observe the same policy in their methods of raising money, the ways in which they proceed are of the less importance: but when any one state makes an alteration, by which more money is thrown into their hands than they could formerly obtain; this circumstance obliges every other state to adopt the same method. Thus while Princes made war with the amount of their treasures and annual income, the balance of their power depended on the balance of such resources: when they anticipated their income on both sides, for a few years, the balance was in proportion still: when, afterwards, they adopted long funds and perpetual interest, the supplies increased; but still the balance was determined as formerly.

(Steuart 1767, II 359)

6. Concluding remarks

In the year 1760, when he was preparing for the latter half of Principles where he intended to write on money, credit, debts, and taxes, Steuart studied the writings of Davenant attentively. Steuart regarded Davenant as the ablest writer on public credit in his time and Davenant’s writings had a decisive impact on Steuart’s theory on public credit. The two shared some important basis regarding government. It would scarcely be more imprudent to give a prodigal son a credit in every banker’s shop in London, than to impower a statesman to draw bills, in this manner, upon posterity” (Hume 1752, 124-25).
public credit: they both regarded that war finance is central to the topic, that it is critical to reason by figures, and the argument must include or imply a comparison with rival nations.

By examining why his opinion differed with Davenant’s on how war should be financed, Steuart learned how the credit in England developed in conjunction with the development of trade, industry, and class structure of its society. Steuart was able to clearly understand that, starting from 1688, a decisive development in public credit took place in England which enabled the government to borrow more extensively. This development, according to Steuart, was a huge asset for England/Britain to fight wars against other nations. Thus Steuart’s Principles was the first economic theory to positively assimilate and integrate the financial revolution in England.

References
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