THE ECONOMIC PHILOSOPHY OF THOMAS Paine

On the eve of the Revolutionary War, Thomas Paine, a failure in England, landed in America and threw in his fortunes with the revolting colonists, fighting "for the security of their natural rights and the protection of their own property." Then began a career which made him one of the most powerful pamphleteers of the eighteenth century. Not only did he play a prominent rôle in the American Revolution but also in that of France, and many English authorities feared that he might instigate one in his native land. Like any impecunious pamphleteer, he sought wealth, and like any enlightened child of the eighteenth century, he believed that success in business affairs was evidence of God's good will. But his was the luckless fate of the general run of pamphleteers. His life continued to be a precarious one, and his biographer must pass over in silence more than one instance where the necessities of livelihood required that the language of lofty idealism serve special interests.

In Common Sense, Paine justified independence on the ground of natural right, interest and common sense. Government must be distinguished from society. Men by natural gravitation join in society in order to assist one another to satisfy their wants; that is, society consists of the bonds created by exchange and contracts. It is produced by our wants. Government, on the other hand, is produced by men's wickedness. It is a necessary evil, a badge of man's fall or corruption. It can do no positive good; at best it restrains men's vices. Security of property is the end of government. Therefore men surrender a part of their property to furnish the means of protecting the rest.

The inequality of wealth is natural for it arises from differences in "industry, superiority of talents, dexterity of man-

agement, extreme frugality, fortunate opportunities.” It is not due to oppression and avarice. Oppression may be the consequence of riches, but is seldom the cause, and avarice generally makes men too timid to be wealthy.

On the other hand, the distinction between king and subject cannot be termed natural. It is a violation of the mutual compact and is the result of oppression and conquest. People remain blind to this interference with natural right and pecuniary interest through the force of fear, superstition, prejudice and prepossession. Hereditary monarchy has the least justification, for no generation has the right to bind future generations to a definite form of government.

By eliminating commercial restraints and the expense of maintaining useless royalty and aristocracy, Paine argued, independence would promote the security and increase of property. Freedom of trade is the principal source of wealth for a trading nation. England’s protection is unnecessary, for America’s “plan is commerce”, and since it is Europe’s interest to have access to American trade, America will enjoy the friendship of Europe. American independence would even benefit the important classes of the English nation, the merchants and the manufacturers, because the increased commerce will enhance their profits. At the same time, America’s commercial rights must be extended, for independence without commercial prosperity is hollow.

The cause of America stood on “the broad foundation of property and popularity” and the latter depended on the former. True, a country’s valor is evidenced by the character of the inhabitants and the bravery of the soldiers, but confidence of success is best evidenced by the support of men of substance. In this way a war becomes really popular.

The cost of the war is nominal. The creation of a national debt would be beneficial, for it would be a national bond.


Since taxes are distributed within the country, they are a spur to industry; consequently in the absence of tax levies, the country would be poverty-stricken, just as without commerce, people would be indolent. An import duty is the best type of taxation, for it keeps foreign trade in the hands of Americans, and forces foreigners to contribute to the national defense.4

In the midst of his efforts in behalf of the revolutionary cause, Paine illustrated his philosophy of contract by publishing a pamphlet denying Virginia's claims to Western lands. He supported the contentions of land companies, with ambiguous titles, that the land belonged to the United States which alone could decide its disposition. He advocated that Congress organize the land with a view to creating new states. Effective government, which Virginia could not possibly furnish these frontier areas, would result in a rapid appreciation of land values. He now argued that land rather than trade was the real source of riches. The riches of other countries, based on industry and trade, were fictitious. They were matters of convention, subject to risk, but lands constantly increase in value with the growth of population. The Western lands were the property of the United States and the inhabitants had no right of self-government until they reached a certain number. Even when they became states, they were to have but limited Congressional rights for seven years. Paine felt that such new states would at first require more aid from the Confederacy than they could give to it, and that the inhabitants being largely composed of immigrants would require further tutelage. After the appearance of this pamphlet the Virginia legislature voted down a proposed land grant for Paine.5

In 1786, in the controversy over the Bank of North America, Paine developed the doctrine that a charter granted by the legislature is an irrevocable contract. Robert Morris, while financier general, promoted the Bank of North America which possessed, among its privileges, the power to issue bank notes. He obtained a perpetual charter from Congress in 1781 and

5 "Public Good" (1780), in Writings, vol. II, pp. 61, 63, 65-66.
another from Pennsylvania in 1782, with powers exceeding those of its model, the Bank of England. No other bank charter could be granted. Although it was to be under private control and for private profit, its incorporators justified its establishment on the ground that it was essential to supply the war needs of the government. Most of its funds came from the government's deposits of foreign loans, and the bank did not begin operations until after the surrender of Cornwallis, when the war, in fact, was over. It paid dividends at the rate of twelve to sixteen per cent. In 1785, petitions from various localities poured in to the Pennsylvania Assembly demanding the abrogation of the bank's charter.

These petitions denounced the bank as a vicious monopoly and money power, creating the prevailing havoc, insecurity and distress in the commercial community and causing the exportation of specie. They also accused the bank of discriminating in favor of speculators, of throwing the husbandmen and mechanics into bankruptcy and paying no share of its enormous profits to the government. Further, the petitions held that the large profits would attract foreign investment in the bank and the resulting foreign influence would reduce the American people to dependency on European courts and their intrigues. Even if the ownership were confined to Americans, this accumulation of wealth in a private society claiming perpetual duration would result in destroying freedom and equality in America, and the bank directors would be able to dictate legislation. Instead of being dependent on the government, the bank would control the government. Already the bank had threatened to destroy the state's paper money, by refusing to accept it. The arguments presented in the petitions led to the formation of a legislative committee which investigated the matter, and soon the charter was repealed.

Benjamin Franklin, who like Paine was a stockholder, persuaded Paine to write in behalf of the bank, and at the same time, Morris entered the Assembly to endeavor to reopen the case. The result was a pamphlet entitled *Dissertations on*
Government, the Affairs of the Bank and Paper Money. In it Paine maintained that the citizens should be aware of certain self-evident truths not because the bank is concerned, but because constitutional rights and privileges are involved. If the legislature has the power to repeal the charter or in any way interfere with the bank, then the laws of the land and the courts of justice are useless. When people form a republic, which means a government for the public good, rich and poor mutually pledge themselves to the rule of equal justice. This gives security to the rich and consolation to the poor, for it permits every man to have his own and protects him from the despotism of the majority. Since the people in this original compact renounce as unjust the tyrannical right to break contracts, the assumption of this right by their representatives, the government, destroys the sovereign principle of the republic and installs despotism. Like contracts between individuals, contracts by the legislature, as a representative of the public, with a person or persons cannot be broken or changed without the consent of both parties. A legislature is prohibited from voiding a contract not only by legal and constitutional restrictions, but also by "natural reasons, or those reasons which the plain rules of common sense point out to every man." If such prohibition did not exist, a government of established principles administered by established rules would become a government with discretionary powers during the existence of one legislature, and a new revolution would occur with the election of every new legislature. The charter of the Bank of North America, established by "the enterprising spirit of patriotic individuals", constituted a contract.

In answer to the objection to a perpetual charter, Paine admitted that no generation has a right to bind a future one; nor has it the right to break a contract into which it has originally entered. Future generations may do as they see fit in accordance with the pecuniary canons of justice. Unfortunately, however, Paine did not determine when a new generation begins, or how the contract may be broken. As for paying

part of the profits to the government, Paine felt that taking tolls for charters smacked of British tyranny. The assertion that the bank should be dependent on government he regarded as "treason", since the citizens who compose the bank will not be free if they are dependent on every new legislature. This would be exercising an authority over them which the legislature does not exercise over other citizens, and thereby would destroy the equality of freedom which is the bulwark of the Constitution. Purchase of bank stock by foreigners is a good instead of an evil, for where their money is, there go their hearts, and so we obtain a stronger influence over them than they can exercise over us.

Instead of monopolizing the money of the country, the bank is merely a steward, a useful depository for its real owners—the holders of bank notes and deposits. By making available otherwise idle money, the bank quickens business and creates employment. Through the invigorated commerce, the government derives a revenue. Least of all should the agrarians complain, for the additional funds available prevent a monopoly of the market by the few wealthy merchants. Thus, for honor rather than for their own interest, the incorporators have established the bank. True, discounts have been stopped and loans have been called, but this was done either to settle accounts or to prevent exportation of specie.

Paine bitterly denounced the issuance of paper money by the state. The Pennsylvania Constitution contains nothing which gives the Assembly the power to issue paper money. Those urging paper emissions on the fictitious ground of scarcity of money are base debtors, hoping to defraud their creditors through depreciation. Specie is the emission of nature, but paper causes the exportation of specie. The value of specie is determined by the quantity nature made, and man has no share in its value whether it bears a government stamp or not. The love of specie may produce covetousness, but covetousness is not properly a vice but "frugality run to an extreme." Paper, however, costs only a trifle, and thus inevitably becomes too plentiful. Since its value depends on caprice and accident, the value varies greatly and thus becomes the object
of jobbery and schemes of deceit. Every principle of justice is violated, and the bond of society is dissolved. An act to suppress the issuance of paper money is really an act to suppress vice and immorality. To make the paper legal tender is a violation of contract, destroying morality, and undermining freedom, security and property. "The punishment of a member [of the assembly] who should move for such a law ought to be death."

Bank notes, however, are not of this character, for they are redeemable in specie. For the restoration of credit Paine proposed an ingenious scheme whereby the bank would more effectively control the finances of the government and the wealth of the community. Instead of having the state issue paper, he suggested that the government borrow from the bank sufficient bank notes for its financial needs, and the bank and related mercantile interests would bring in money to pay the notes, since the interest on the loans would be a bounty to import specie. Such combining of authority with usefulness is the distinguishing characteristic of a republican system.

The bank obtained a new charter, but Paine temporarily lost his reputation among his old democratic friends.7

The French Revolution proved to be another great opportunity for Paine's talents. When he arrived in England, reform was in the air. Burke's bitter denunciations of the French Revolution were at first coolly received, and Paine replied to him with his finest work, The Rights of Man, which in large part recapitulated the arguments of Common Sense.

The origin and continuation of monarchy, aristocracy and church establishments, Paine insisted, are due to force and fraud. The beneficiaries are really beggars. Heavy taxation, needed to support them, causes riots and disturbances. If primogeniture is abolished, estates will be left equally among the heirs, and there will no longer be any need for sinecures in church and state for the younger sons of noble families.

Paine demanded removal of property qualification for voting on the ground of property rights. The disfranchised are slaves because, without the vote, they are not guaranteed the essential property right, that of freedom from restrictions in acquiring a living. Furthermore, every man over twenty-one pays taxes from his property or from his labor which is property. Above all, a property qualification renders property insecure, since men, deprived of rights through it, will rise against the cause of their oppression. However, Paine was really interested in obtaining the franchise for the business classes. In England in some places, he remarked, the lowest characters without visible means of support could vote; in other places, great merchants, manufacturers and tenant farmers with heavy capital investments could not.8

Paine strongly advocated less government and more society. Men are not improved by government, and "I take my stand" on the argument that his condition is to be improved by means of his interest instead of "mere theoretical reformation." The landholder, farmer, merchant and trader prosper from the aid each obtains from the others. "Common interest regulates their concerns," and the usages growing out of this intercourse are more influential than the acts of government. Society performs almost everything attributed to governments. The more civilized man is, the less need there is for government, and the natural operation of the parts satisfies men. The laws of trade and commerce are laws of nature, or the laws of society, and they are obeyed not because of government but because of interest. In the trading associations, where men act on the principle of society, the units unite naturally. Were governments suddenly to disappear, mankind would proceed in much the same fashion. Governments follow precedent and oppose enterprise, but improvements in agriculture, arts and commerce are due to the enterprise of individuals and private associations. The promoter asks only that the government leave him alone. The government functionaries are merely stewards with the duty to maintain the property and freedom

of the people. The need of government is limited to the fact that every man wishes to pursue his occupation and enjoy the fruits of his property. Consequently combinations of laborers to raise wages are unlawful, and the practice of fixing maximum prices, though famine prevails, causes the greatest distress.9

Commerce, Paine asserted, is the great civilizing force. Nature has made commerce the means of eliminating war, for it is cheaper to obtain commodities through commerce rather than through war. Commerce is beneficial, because merchants get rich from the natural increase in value of the objects exchanged. Thus, while foreign commerce is advantageous, domestic commerce is more so, for all rather than one-half the benefits lie within the nation. Furthermore, since commerce is fostered only by the reciprocal interest of nations, attempts to control commerce by navies and conquest are a futile waste of resources and the heavy cost involved leads to domestic oppression. Therefore, Paine reasoned that the combined reduced fleets of England, Holland, France and the United States could force Spain to give South America her independence and thus open countries of immense wealth to world commerce. This area would provide a ready market for English manufactures, whereas England at the moment was drained of specie to pay for the imports of competing manufactures from India. With good reason, Paine declared that “in all my publications, wherever the matter would admit, I have been an advocate for commerce.” 10

Paine's suggestions for financial reform were designed to relieve the business classes of heavy taxes. The support given to useless government establishments could be directed toward eliminating the poor rates. The discontent of the poor would be allayed and poor relief abolished by such measures as education, old-age pensions, and work barrack for the unemployed. Education was to consist of “reading, writing and arithmetic”. Thereby the children could obtain a profitable living and cease to be a drain on the industrious. Old-

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age pensions were to consist of small annual payments of £6 to those between the ages of fifty and sixty, and £10 thereafter. Taxes paid by the consumer, such as the excise and customs taxes, should be retained so that trade would not be disturbed. Taxation of land and land incomes was to be arranged to encourage division of the estates, and thereby eliminate the institution of primogeniture. However, “it would be impolitic to set bounds to property acquired by industry.”

The English financial system, as one of credit, was based on paper rather than real money. Credit was the child of credulity and, if the holders of Bank of England notes were to demand specie, the entire system would collapse. The contradiction between his views on the Bank of North America and those on the Bank of England was somewhat resolved by his argument that to the extent that the Bank of England issued paper, based on discounted bills growing out of commercial transactions, it was engaged in legitimate business.

In fact, Paine would tamper but little with the debt. Its origins might be shady, but it was not the crime of the present holders. Furthermore, the interest should not be touched for it might affect adversely legitimate credit and commerce. As the interest was paid in Bank of England notes, it kept alive a capital useful to commerce and thereby neutralized to a considerable degree its own burden. Since the amount of specie was inadequate, it would be bad policy as well as unjust to eliminate a capital that met the defect of the circulating medium. Still, in view of the discontent over the national debt, it would be good policy for the holders to allow a slight tax on the interest.

As a result of attacking monarchy in his *Rights of Man*, Paine was ordered to stand trial. At first, this did not disturb him, because reform was a common cry, and a trial would give wide publicity to his works. However, when the British government became intent on ruthlessly suppressing even nominal

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demands for reform, Paine left the country to take a seat in the French National Convention.

In France, Paine once more advocated his ideas. As in the case of England, he suggested reforms which would relieve the poor without disturbing trade, commerce or the unrestricted accumulation of wealth. Toward this end, he published Agrarian Justice. It was occasioned by the unsuccessful communist revolt led by Babeuf against the reactionary French government. Paine denounced the leaders for attempting to overthrow society instead of waiting for the customary elections or proposing useful measures. Of course, the great mass of poor are ever increasing and have become a hereditary race. In the natural state, poverty did not exist, but civilization has created both splendor and wretchedness side by side. This situation has been caused by the rise of ownership of land, whereas in the original state land was common property and every man was a joint proprietor in its products. Increasing population necessitated private cultivation, and since it is impossible to differentiate the improvement from the land itself, the latter became private property also. To obtain for the dispossessed poor their share in the common or natural property, a fund was to be raised by levying a death duty of ten per cent. Personal property should be subject to the tax because it is the effect of society, not that the individual owes society the property, but that without society an individual cannot acquire it. According to Paine's plan, the fund was to provide the rather small amount of £15 for each individual, rich or poor, on reaching the age of twenty-one, and a yearly pension of £10 after the age of fifty. The scheme would have many beneficial results. The national lands would sell at better rates. A young couple could obtain land and stock, and become profitable citizens rather than burdens on society. The wealthy classes particularly would benefit, for the unjust character of modern civilization might lead to violence against property. When display of wealth simply serves to arouse the masses to question the right of property, it is only in a system of justice that the possessors can rest secure. Such danger would be removed by the tax. The masses would see
that the riches of one above another increase the national fund proportionately and that the more riches a man acquires the better it is for the poor. Paine truthfully said, "I am a friend of riches." 13

On his return to the United States in 1802 Paine found that the prevailing sentiment was hostile. Jefferson, who was in his second presidential year, had praised The Rights of Man, as the orthodox doctrine of American political theory, but the Federalists regarded Paine as a regicide. In religious circles he was denounced as an atheist for his Age of Reason which expounded Deism. He had written that God was known through nature and the laws of science were the formulations of the laws of inscrutable, beneficent nature. Therefore, if men would be happy and moral, they should follow the ways of nature as expressed in the "wise and economical sayings" of Franklin. 14 The church members, however, only noticed his diatribes on organized religion and his characterization of the Bible as an obscene document; they failed to see his metaphysical defense of business practice and ways of conduct.

Jefferson sought Paine's advice on important questions, but made little effort to aid him. Paine wrote the President that when Napoleon had conquered England, the United States should seize Canada and the Bermudas. In another communication he expounded views which were later expressed in the Monroe Doctrine. He thought that the United States should mediate between France and rebellious Santo Domingo, and guarantee the settlement. This would give the United States great political and commercial influence in Santo Domingo. 15 Paine advised Jefferson on how Louisiana could be obtained from Napoleon. He suggested that Jefferson propose to purchase the territory, and then inform Napoleon that the inhabitants of the Western territories were growing so powerful and restive, that it was impossible to restrain them from seizing New Orleans, and that it was equally impossible for France to prevent them. 16

14 "The Age of Reason" (1796), in Writings, vol. IV, p. 35.
Jefferson was worried over his constitutional right to make the purchase, but Paine informed him that the Constitution had nothing to do with the matter since its framers could never have foreseen the occasion. The transaction was within the president's jurisdiction. It was a sale and purchase similar to any financial transaction. The object was an increase of territory for a valuable consideration.

Concerning the government of the territory, Paine recommended a period of tutelage for the French inhabitants, since they were not acquainted with democratic institutions. At the same time he asked Jefferson about the acquisition of lands in the territory by individuals, for he had friends by principle in the British Isles who had funds to purchase unlimited amounts. He suggested that indentured servants be obtained as a labor supply, since sale of lands and settlement would be retarded until laborers were obtained. Indentured servants yield more revenue to the government than negro slaves, for their consumption of imported articles is much greater. The government, therefore, should supervise a system of indentured servitude in the newly acquired territory. On the expiration of their service, Congress, rather than their masters, should give them a few acres which would serve as an incentive to purchase more at a later date. Paine pointed to the good done by the Quaker merchants of Pennsylvania. They went extensively into the business of importing indentured servants, for it was consistent with their moral principles of bettering the condition of the poor and ending negro slavery. Free negroes might also be imported into the territory through government financial aid. Congress should supply the passage to New Orleans, and the negroes, after working for the planters for a few years, should be made share croppers.17

When the inhabitants of the Louisiana territory petitioned for self-government, they advanced Paine's political philosophy of the rights of self-government in accordance with "the laws of nature." The colonial arguments against England were cited. Paine replied that the Louisianans were not experienced in the representative system, that the colonies had ob-

tained their rights by an expensive war, that it was not the duty of the United States to fight the world's battles for the world's profit, that the territory was not a contracting party to the cession but had merely been purchased. Congress was the guardian of this valuable property for all the United States, and it would be unwise to place the territory under the jurisdiction of the people whose freedom had just been purchased. Repayment of the purchase price must come from the land sales. It was better for the inhabitants that Congress govern, since its effective government would encourage increased population and thereby raise the land values. The fear of the inhabitants that governors with no interest in the welfare of the territory might be appointed was unfounded. True, despotic governments, like those of their former masters, might do so, but their references to practices of their old rulers revealed that the inhabitants did not understand the principles or interest of a republic, or the difference between governments distant and despotic and those domestic and free.18

During this period Paine's views regarding banks underwent a change to a more democratic philosophy. Scandals had occurred in connection with bank charters, particularly in Pennsylvania. He now claimed that neither the Pennsylvania Constitution nor that of any other state gave the government the right to grant charters or monopolies. The spirit of the times was against all such speculations. Furthermore, long term charters were a violation of the principle of annual election of the legislature. Charters for more than one year meant that one legislature could pass measures beyond the power of succeeding legislatures to correct. Paine did not suggest that incorporation should be forbidden, but rather he proposed a device which he had originally suggested to prevent the revocation of the charter of the Bank of North America. Extraordinary matters such as incorporations should be passed by two successive legislatures. If the citizens disliked a measure, they could refuse to reelect those who had supported it.19

18 "To the French Inhabitants of Louisiana" (1804), in Writings, vol. III, pp. 430-436.
19 "Constitutions, Governments and Charters" (1805), in Writings, vol. IV, pp. 468-469.
As a whole the works of Thomas Paine present a scheme of things closely resembling that of the Benthamites, which came a generation later. His views foreshadow Herbert Spencer's philosophy of a contrast between a system of status and one of free contract. Abolition of church, aristocracy and royalty would solve all social problems by leaving individuals to the natural play of free contracts. Just as Common Sense advocated independence through the elimination of unnecessary expense and the abolition of restrictions on commerce and property, and thus on personal rights, so on the same basis The Rights of Man called for the abolition of royalty and aristocracies, and The Age of Reason, of organized religion.

This elimination of all institutions, except those involving property and its security, would permit the expansion of business enterprise. Paine's opponents, including Hamilton, did not appreciate the drift of his writings, for his objective was theirs. Hamilton felt that wealth could be secure only with a strong government in the hands of men of great wealth, for the mass of men were ignorant and turbulent. Paine believed in the democracy of property owners, which by virtue of the beneficence of the uniting bond of property and contract would duly recognize the sanctity of all contracts including all agreements made by the legislature with individuals.

So easily did these two schools of economic thought fuse, that the major argument used by Paine to deny the right of the Pennsylvania legislature to abrogate the charter of the Bank of North America was precisely the one used by Hamilton to deny the right of Jefferson to reform the federal judiciary in 1801. Both the grant of the charter and the establishment of the judiciary were in the nature of contracts, and no legislature could interfere with the original terms except with the approval of the other contracting body.20


Joseph Dorfman

Columbia University