

Background for “The Bill Comes Later”

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October 2026

Overview

This imagined letter in Adam Smith’s voice draws almost entirely from one chapter of *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776; hereafter WN): Book V, Chapter iii, “Of Publick Debts,” the chapter that closes the book. Citations follow the Glasgow Edition’s Book–Chapter–Paragraph numbering (e.g., WN V.iii.37), and every quotation and paragraph number in this paper was checked against the Glasgow text (R. H. Campbell, A. S. Skinner, and W. B. Todd, eds., vol. II; Liberty Fund reprint). Quotations keep the Glasgow spelling (“compleatly,” “publick,” “expence”), as in the earlier letters and papers.

The letter advances the following claims drawn from Smith’s writings:

1. Governments at war are “both unwilling and unable” to raise taxes in proportion to the expense, and borrowing lets them carry on a war “with a very moderate increase of taxes”; in a great empire, people far from the fighting feel scarcely any inconvenience from a war, pay only a small difference in taxes, enjoy “the amusement of reading in the newspapers the exploits of their own fleets and armies,” and are commonly dissatisfied when peace returns (WN V.iii.37).
2. The new taxes of a funded war are imposed “for the sole purpose of paying the interest of the money borrowed upon them” (WN V.iii.39); under perpetual funding the assigned revenue pays “the interest only, or a perpetual annuity equivalent to the interest, government being at liberty to redeem at any time this annuity, upon paying back the principal sum borrowed” (WN V.iii.12).
3. Were wars paid for by revenue raised within the year, the people, feeling the whole burden, “would soon grow weary of it,” and wars would be “more speedily concluded, and less wantonly undertaken” (WN V.iii.50).
4. Borrowing is nonetheless a necessity in an emergency, because “the want of parsimony in time of peace, imposes the necessity of contracting debt in time of war,” and the expense of war “will not wait for the gradual and slow returns of the new taxes” (WN V.iii.4).
5. Peace seldom removes the wartime taxes, which are “mortgaged for the interest of the debt, contracted in order to carry it on,” and the fund for repayment “is almost always applied to other purposes” (WN V.iii.38); governments find it “always more convenient” to meet a peacetime expense “by misapplying the sinking fund than by imposing a new tax,” because a new tax “occasions always some murmur” while a suspension of repayment “occasions neither murmur nor complaint” (WN V.iii.40); a sinking fund, instituted to pay old debts, “facilitates very much

the contracting of new debts” (WN V.iii.28); under perpetual funding the reduction of debt in peace “has never borne any proportion to its accumulation in time of war” (WN V.iii.41); and those who administer public affairs care chiefly to “relieve the present exigency,” while “The future liberation of the publick revenue, they leave to the care of posterity” (WN V.iii.26).

6. Once national debts have accumulated to a certain degree, there is “scarce, I believe, a single instance of their having been fairly and compleatly paid”; nations are freed from them by bankruptcy, “sometimes by an avowed one, but always by a real one, though frequently by a pretended payment” (WN V.iii.59).

7. The pretended payment is the raising of the denomination of the coin, which Smith illustrates with a sixpence raised to the name of a shilling, calls a “juggling trick,” and ranks below “a fair, open, and avowed bankruptcy” in both honor and harm (WN V.iii.60).

8. Britain “seems to support with ease, a burden which, half a century ago, nobody believed her capable of supporting,” from which it does not follow “that she is capable of supporting any burden” (WN V.iii.58).

As in the earlier background papers, I back each claim with Smith’s text, and where the letter extends beyond what Smith explicitly argued, I identify the extension as mine.

1. The Spine

Letter’s claim: *“Debt lets a people enjoy what government provides without feeling its full cost today—and makes the promise to pay later easier to give than to keep.”*

Textual Basis

The sentence is mine. It compresses the two arguments of WN V.iii on which the letter rests, and each clause is anchored in a passage quoted below.

The first clause states the mechanism of V.iii.37: by borrowing, governments at war raise what they need “with a very moderate increase of taxes,” and those remote from the fighting feel only “the small difference between the taxes which they pay on account of the war, and those which they had been accustomed to pay in time of peace,” a difference compensated by the amusement of following the war in the newspapers. Smith’s counterfactual, thirteen paragraphs later (V.iii.50), that the people would “soon grow weary” of a war they paid for within the year, is what licenses the stronger formulation the letter italicizes: borrowing changes not only when the cost is felt but what the public will ask for.

The second clause states the conclusion of V.iii.59, that accumulated debts are scarcely ever “fairly and compleatly paid,” together with the explanation the chapter offers for it: the taxes that fund the interest outlast the war and the repayment fund is applied to other purposes (V.iii.38), a

new tax is felt and resisted while a suspension of repayment is not (V.iii.40), repayment in peace never keeps pace with borrowing in war (V.iii.41), and the liberation of the revenue is left “to the care of posterity” (V.iii.26). “Easier to give than to keep” is my phrase for that pattern.

The letter introduces the spine with the words “The warning, in one sentence,” rather than presenting it as a quotation, because it is a distillation and not a sentence Smith wrote. Smith’s own warning at the close of the chapter concerns Britain’s capacity (Section 6) and, in its final paragraph (V.iii.92), the colonies; the latter was the subject of the July letter and is not reused here.

2. The Opening: Interest and the Fleets and Armies

Letter’s claim: *“In 2025, your government spent more on interest than on its fleets and armies.”*

Textual Basis

The letter’s “2025” is the federal fiscal year, October 2024 through September 2025. In fiscal year 2025, net interest on the public debt was \$1,028 billion and outlays for the Department of Defense (military) were \$868 billion (Congressional Budget Office, *Monthly Budget Review: Summary for Fiscal Year 2025*, November 2025, Table 3).

3. What Borrowing Changes

Letter’s claim: *“When a great nation fights its wars far from home, I wrote, many of its people feel scarcely any inconvenience from them. They pay a little more in taxes and enjoy, at their ease, ‘the amusement of reading in the newspapers the exploits of their own fleets and armies.’ Many were dissatisfied, I noted, when peace returned. It put an end to their amusement, and to ‘a thousand visionary hopes of conquest and national glory.’”*

Textual Basis

The whole passage is one paragraph of Smith’s, which deserves quotation at length because the letter draws on it four times. It opens with the government’s side of the bargain and ends with the people’s:

“The ordinary expence of the greater part of modern governments in time of peace being equal or nearly equal to their ordinary revenue, when war comes they are both unwilling and unable to increase their revenue in proportion to the increase of their expence. They are unwilling, for fear of offending the people, who, by so great and so sudden an increase of taxes, would soon be disgusted with the war; and they are unable, from not well knowing what taxes would be sufficient to produce the revenue wanted. The facility of borrowing delivers them from the embarrassment which this fear and inability would otherwise occasion. By means of borrowing they are enabled, with a very moderate

increase of taxes, to raise, from year to year, money sufficient for carrying on the war, and by the practice of perpetual funding they are enabled, with the smallest possible increase of taxes, to raise annually the largest possible sum of money. In great empires the people who live in the capital, and in the provinces remote from the scene of action, feel, many of them scarce any inconveniency from the war; but enjoy, at their ease, the amusement of reading in the newspapers the exploits of their own fleets and armies. To them this amusement compensates the small difference between the taxes which they pay on account of the war, and those which they had been accustomed to pay in time of peace. They are commonly dissatisfied with the return of peace, which puts an end to their amusement, and to a thousand visionary hopes of conquest and national glory, from a longer continuance of the war.” (WN V.iii.37)

The letter’s first sentence paraphrases Smith’s “great empires” and “provinces remote from the scene of action” as a great nation fighting “its wars far from home.” The paraphrase narrows nothing that matters: Smith’s condition is distance from the fighting, not empire as such. “Many of its people” is Smith’s “many of them”; an earlier draft had “most,” which Smith does not say. “They pay a little more in taxes” renders “the small difference between the taxes.” “Many were dissatisfied” renders “commonly dissatisfied,” and understates it slightly.

The passage is about Britain’s wars of the eighteenth century, fought at sea and abroad. The letter does not claim that every war is sustained by inattention; a war of survival fought on a nation’s own soil is felt by everyone. Smith’s observation is confined to the case he describes, and the letter keeps it there.

Letter’s claim: *“Borrowing is what kept the taxes small. A war paid for by loans asks the taxpayer only for the interest—a little now, and a little each year after. A war paid for within the year asks for the whole. Make them pay for the war within the year, and they ‘would soon grow weary of it.’ Wars would be ‘less wantonly undertaken.’”*

Textual Basis

The first sentence is Smith’s point in the paragraph just quoted: borrowing lets government carry on a war “with a very moderate increase of taxes,” and perpetual funding “with the smallest possible increase of taxes.” The second sentence gives the mechanism that Smith states two paragraphs later:

“The new taxes were imposed for the sole purpose of paying the interest of the money borrowed upon them.” (WN V.iii.39)

“A little now, and a little each year after” describes the perpetual annuities by which Britain funded its debts. Smith defines the arrangement where he first distinguishes the two ways of borrowing on an assigned revenue:

“Sometimes it has made this assignment or mortgage for a short period of time only, a year, or a few years, for example; and sometimes for perpetuity. In the one case the fund was supposed sufficient to pay, within the limited time, both principal and interest of the money borrowed. In the other it was supposed sufficient to pay the interest only, or a perpetual annuity equivalent to the interest, government being at liberty to redeem at any time this annuity, upon paying back the principal sum borrowed. When money was raised in the one way, it was said to be raised by anticipation; when in the other, by perpetual funding, or, more shortly, by funding.” (WN V.iii.12)

The letter’s sentence describes the funded loans of Smith’s Britain, not every form of government borrowing; the principal of a perpetual annuity was not due, and the substance carries over to a modern debt that is refinanced as it matures, which likewise asks the current taxpayer only for the interest. The three financing sentences are my compression of V.iii.37 and V.iii.39, inserted so that a reader who does not know how a funded debt works can see why the wartime taxes were small.

The counterfactual is Smith’s. In the letter it follows the newspaper passage directly; in Smith’s text it comes thirteen paragraphs later, after his account of the growth of the British debt (V.iii.41–46) and his argument that funding destroys existing capital (V.iii.47–49). It is the same argument resumed:

“Were the expence of war to be defrayed always by a revenue raised within the year, the taxes from which that extraordinary revenue was drawn would last no longer than the war... Wars would in general be more speedily concluded, and less wantonly undertaken. The people feeling, during the continuance of the war, the complete burden of it, would soon grow weary of it, and government, in order to humour them, would not be under the necessity of carrying it on longer than it was necessary to do so. The foresight of the heavy and unavoidable burdens of war would hinder the people from wantonly calling for it when there was no real or solid interest to fight for.” (WN V.iii.50)

The letter’s “Make them pay for the war within the year” renders “Were the expence of war to be defrayed always by a revenue raised within the year.”

Letter’s claim: *“Borrowing does not only move the bill to a later date. It changes what you buy today.”*

Textual Basis

This is the letter’s central sentence, and it is a synthesis, stated as such. Smith does not write it. What he writes is that under taxation within the year wars would be “less wantonly undertaken” and “more speedily concluded,” and that the foresight of the burden “would hinder the people from wantonly calling for” war: the mode of finance changes the number and duration of wars a

people will accept. The letter generalizes that claim from wars to public undertakings as a class. The generalization is mine; its premise is Smith's, and the next paragraph of the letter is explicit that the extension to programs, subsidies, and tax cuts is an application to the present.

The modern newspaper reader ("my newspaper reader is still with you... He has seldom been better entertained. Much of the bill comes later.") is my construction, built to carry Smith's figure into 2026. "Much of the bill comes later" can be documented: in fiscal year 2025, federal receipts were \$5.2 trillion, outlays were \$7.0 trillion, and the federal deficit was \$1.8 trillion, so about a quarter of what the government spent was borrowed rather than billed to current taxpayers (Congressional Budget Office, *Monthly Budget Review: Summary for Fiscal Year 2025*, November 2025), a peacetime share with few precedents outside recessions. The sentences that follow him ("Everything he cheers has a cost. Who bears it, and when?") and the instruction to ask that of "the undertaking... you believe your country needs" are mine. The letter offers it as the reader's application of Smith's observation.

4. Why Later Never Comes

Letter's claim: *"I never said a nation must not borrow; a war does not wait for the tax collector, nor does a plague. My country borrowed for every war, having saved little in peace."*

Textual Basis

Smith's account of why commercial governments borrow is a statement of necessity, not a prohibition. The paragraph opens with the condition and closes with the consequence:

"The want of parsimony in time of peace, imposes the necessity of contracting debt in time of war. When war comes, there is no money in the treasury but what is necessary for carrying on the ordinary expence of the peace establishment... An immediate and great expence must be incurred in that moment of immediate danger, which will not wait for the gradual and slow returns of the new taxes. In this exigency government can have no other resource but in borrowing." (WN V.iii.4)

The letter's "a war does not wait for the tax collector" paraphrases "will not wait for the gradual and slow returns of the new taxes." "Having saved little in peace" paraphrases the paragraph's first sentence, "The want of parsimony in time of peace." "Little" rather than "nothing" because Smith's own history records some peacetime repayment and insists on how small it was: in seventeen years of peace after 1722 "the whole sum paid off was no more than" £8.3 million (V.iii.43); eleven years of peace after 1764 paid off "only" £10.4 million, and "Even this small reduction of debt, however, has not been all made from the savings out of the ordinary revenue of the state" (V.iii.46). "Every war" is likewise Smith's history: the debt was first laid in the war that began in 1688 (V.iii.41), and each war that followed, in 1702, 1739, and 1755, added to it (V.iii.42–46). The same necessity appears from the government's side in V.iii.37, quoted in

Section 3: governments at war are “both unwilling and unable” to raise taxes in proportion to the expense, and “the facility of borrowing delivers them from the embarrassment.”

“Nor does a plague” is my extension: Smith’s chapter speaks only of war as the emergency that forces borrowing, and the letter adds the other emergency its readers will have in mind. The extension is faithful to his principle, which is that the expense of the emergency cannot wait for new taxes, and it does not put a word in his mouth about any particular episode.

Letter’s claim: *“When peace returned, most of the wartime taxes stayed. They had been pledged to pay the interest, and the creditors did not go home with the troops. Even the money set aside to retire the debt was not safe. Whenever a new expense arose, there it sat, already collected, and spending it was easier than raising a tax. A fund meant to pay old debts, I observed, mostly made new ones easier: it was always at hand to be borrowed against.”*

Textual Basis

Each step is Smith’s. The persistence of the taxes, and the fate of any surplus set aside for repayment:

“The return of peace, indeed, seldom relieves them from the greater part of the taxes imposed during the war. These are mortgaged for the interest of the debt, contracted in order to carry it on. If, over and above paying the interest of this debt, and defraying the ordinary expence of government, the old revenue, together with the new taxes, produce some surplus revenue, it may perhaps be converted into a sinking fund for paying off the debt. But, in the first place, this sinking fund, even supposing it should be applied to no other purpose, is generally altogether inadequate for paying, in the course of any period during which it can reasonably be expected that peace should continue, the whole debt contracted during the war; and, in the second place, this fund is almost always applied to other purposes.” (WN V.iii.38)

The letter’s “pledged to pay the interest” renders “mortgaged for the interest”; “the creditors did not go home with the troops” is my image for the same fact; “was not safe” renders “almost always applied to other purposes.” “Most of the wartime taxes” renders “the greater part of the taxes imposed during the war”; an earlier draft had “each time... the wartime taxes stayed,” which went past Smith’s “seldom.”

The diversion of the repayment fund to peacetime expenses, and the reason it was easier than a tax:

“During the most profound peace, various events occur which require an extraordinary expence, and government finds it always more convenient to defray this expence by misapplying the sinking fund than by imposing a new tax. Every new tax is immediately

felt more or less by the people. It occasions always some murmur, and meets with some opposition.” (WN V.iii.40)

The letter’s “spending it was easier than raising a tax” renders “more convenient to defray this expence by misapplying the sinking fund than by imposing a new tax.”

The second use of the fund, and the reason it made new borrowing easier, is stated earlier in the chapter, where Smith first describes the device:

“A sinking fund, though instituted for the payment of old, facilitates very much the contracting of new debts. It is a subsidiary fund always at hand to be mortgaged in aid of any other doubtful fund, upon which money is proposed to be raised in any exigency of the state. Whether the sinking fund of Great Britain has been more frequently applied to the one or to the other of those two purposes, will sufficiently appear by and by.” (WN V.iii.28)

“Always at hand to be borrowed against” is a close paraphrase of “always at hand to be mortgaged.” The letter does not use the term “sinking fund,” which would mean nothing to most readers, and describes the thing instead.

The letter’s “Raise another tax, and people complain. Postpone repayment, and few notice” is a direct compression of V.iii.40. Smith has just said that a new tax “occasions always some murmur, and meets with some opposition”; a few sentences later he gives the other half:

“A momentary suspension of the payment of debt is not immediately felt by the people, and occasions neither murmur nor complaint. To borrow of the sinking fund is always an obvious and easy expedient for getting out of the present difficulty.” (WN V.iii.40)

“People complain” renders “murmur... and opposition”; “few notice” renders “not immediately felt by the people, and occasions neither murmur nor complaint.” The result Smith records, in the paragraph that follows, is the one the letter’s next paragraph draws out:

“In Great Britain, from the time that we had first recourse to the ruinous expedient of perpetual funding, the reduction of the publick debt in time of peace, has never borne any proportion to its accumulation in time of war.” (WN V.iii.41)

“Postponing is felt later, by people who cannot yet complain” is my wording. The thought behind it is Smith’s, as the next paragraph of the letter shows.

Letter’s claim: *“I said as much of those who governed my country: relieving the present difficulty was what chiefly interested them. The freeing of the revenue they left ‘to the care of posterity.’”*

Textual Basis

The passage closes Smith's account of how anticipation gave way to perpetual funding:

“But though this practice necessarily puts off the liberation of the publick revenue from a fixed period to one so indefinite that it is not very likely ever to arrive; yet as a greater sum can in all cases be raised by this new practice than by the old one of anticipations, the former, when men have once become familiar with it, has in the great exigencies of the state been universally preferred to the latter. To relieve the present exigency is always the object which principally interests those immediately concerned in the administration of publick affairs. The future liberation of the publick revenue, they leave to the care of posterity.” (WN V.iii.26)

“Those who governed my country” renders “those immediately concerned in the administration of publick affairs”; “relieving the present difficulty was what chiefly interested them” renders “To relieve the present exigency is always the object which principally interests”; “the freeing of the revenue” renders “The future liberation of the publick revenue.” The quoted words are Smith's. The paragraph gives the letter's generational framing a direct basis in Smith; earlier drafts of this paper described that framing as wholly mine, which was too restrictive. Smith's analysis of who ultimately bears a funded debt still runs through the diversion of capital (Section 7), and “people who cannot yet complain” should not be read as saying that only the unborn pay: the same people can pay later.

Letter's claim: “*Your economists have a name for the view opposite to mine: that a people foresee the future taxes behind every loan and save to pay them, so that it makes no difference whether the bill comes now or later. A generation after me, Mr. Ricardo explained that arithmetic, then doubted whether people behave accordingly.*”

Textual Basis

This paragraph is historical, not Smithian, and its accuracy rests on Ricardo's text. In the *Essay on the Funding System* (1820), Ricardo states that a war financed by taxes raised at once, by a perpetual loan, or by a terminable annuity imposes the same burden and then he observes that taxpayers do not behave in that manner: they judge a war burdensome by what they are called to pay for it in taxes at the moment, without regard to how long those taxes will last, and so do not manage their private affairs as if the three were equal (David Ricardo, “Funding System” [1820], in *The Works and Correspondence of David Ricardo*, ed. Piero Sraffa, vol. IV, 186–187). The modern proposition is Robert J. Barro, “Are Government Bonds Net Wealth?” *Journal of Political Economy* 82 (1974): 1095–1117; the name was attached by James M. Buchanan, “Barro on the Ricardian Equivalence Theorem,” *Journal of Political Economy* 84 (1976): 337–342; the observation that Ricardo himself rejected it is Gerald P. O'Driscoll, Jr., “The Ricardian Nonequivalence Theorem,” *Journal of Political Economy* 85 (1977): 207–210.

The letter's statement of the proposition ("it makes no difference whether the bill comes now or later") is a lay statement of the equivalence result as a claim about the timing of taxes; an earlier draft had "so that borrowing changes nothing," which is broader than the proposition. Ricardian equivalence is a conditional proposition about changes in tax timing for a given path of government expenditure, under stated assumptions (lump-sum taxes, operative bequest motives, perfect capital markets, no default risk); Barro states the given-expenditure assumption explicitly. It is not a claim that borrowing has no consequences under all circumstances, and it does not by itself answer Smith's question, which is whether debt finance changes the expenditure the public supports. The letter's "the view opposite to mine" is accurate at the level of the premise: the proposition assumes that people foresee the taxes behind a loan, and Smith's observation is that they feel only "the small difference." Ricardo's doubt concerned that premise, how taxpayers actually perceive and respond to the alternatives. "A generation after me" is literal: Ricardo's essay appeared forty-four years after WN. The letter does not claim that Smith anticipated the proposition, only that the observation on which Ricardo rejected it, the taxpayer's failure to feel the full burden, is the observation of V.iii.37.

5. The Pretended Payment

Letter's claim: "*When national debts have once been accumulated to a certain degree, there is scarce, I believe, a single instance of their having been fairly and compleatly paid. Nations were freed from their debts by bankruptcy: sometimes by an avowed one, but always by a real one, though frequently by a pretended payment.*"

Textual Basis

Both quotations are from the same paragraph, which is quoted here whole:

"When national debts have once been accumulated to a certain degree, there is scarce, I believe, a single instance of their having been fairly and compleatly paid. The liberation of the publick revenue, if it has ever been brought about at all, has always been brought about by a bankruptcy; sometimes by an avowed one, but always by a real one, though frequently by a pretended payment." (WN V.iii.59)

The letter preserves Smith's three qualifications, "to a certain degree," "scarce," and "I believe," by quoting the sentence whole rather than summarizing it.

One distinction should be made explicit here, because the letter's language of a promise to pay later could otherwise suggest that a debt still outstanding is a promise broken. Under the perpetual funding described in WN V.iii.12, the government undertook to pay an annuity and retained the option of redeeming it by returning the principal; leaving the principal outstanding while paying the annuity was performance of the contract, not default. Smith's "liberation of the publick revenue" means release from the continuing charge, and his "pretended payment" means

the different act of claiming discharge while delivering less value through an altered coin. The letter's "promise to pay later" is my shorthand for the prospect of eventually freeing public revenue from the continuing debt charge. Smith describes that liberation as postponed and left to posterity (V.iii.26); this is not a claim that leaving the principal outstanding violated the original loan contract.

Letter's claim: *"The pretended payment was a trick with the coin. Suppose a king owes twenty shillings. He declares that coins with half the silver shall now be called shillings, and pays twenty of them. The promised number. Half the silver. I called it a 'juggling trick,' so easily seen through, and I said an honest bankruptcy was less shameful to the debtor and less harmful to the creditor."*

Textual Basis

Smith's own illustration uses the sixpence and the shilling:

"The raising of the denomination of the coin has been the most usual expedient by which a real publick bankruptcy has been disguised under the appearance of a pretended payment. If a sixpence, for example, should either by act of parliament or royal proclamation be raised to the denomination of a shilling, and twenty sixpences to that of a pound sterling; the person who under the old denomination had borrowed twenty shillings, or near four ounces of silver, would, under the new, pay with twenty six-pences, or with something less than two ounces." (WN V.iii.60)

The letter restates Smith's example with the arithmetic made visible. The debt is twenty shillings, a sum in money and not a weight of silver, exactly as in Smith; the shilling of the new denomination is the old sixpence, which is "coins with half the silver"; and "The promised number. Half the silver." compresses "pay with twenty six-pences, or with something less than two ounces." The example is hypothetical in the letter as it is in Smith ("If a sixpence, for example..."). An earlier draft had the king owe "a pound of silver," a debt in weight that no renaming could discharge, and a pound sterling in Smith's day held about four ounces of silver in any case; the passage was corrected. Smith's verdict on the practice and his preference for open bankruptcy close the same paragraph:

"When it becomes necessary for a state to declare itself bankrupt, in the same manner as when it becomes necessary for an individual to do so, a fair, open, and avowed bankruptcy is always the measure which is both least dishonourable to the debtor, and least hurtful to the creditor. The honour of a state is surely very poorly provided for, when, in order to cover the disgrace of a real bankruptcy, it has recourse to a juggling trick of this kind, so easily seen through, and at the same time so extremely pernicious." (WN V.iii.60)

“Less shameful to the debtor and less harmful to the creditor” paraphrases “least dishonourable to the debtor, and least hurtful to the creditor.” Part of Smith’s reason for preferring open bankruptcy is that a raised denomination does not stop at the public creditor: “The calamity too would extend much further than to the creditors of the publick, and those of every private person would suffer a proportionable loss” (WN V.iii.60), so that the pretended payment “extends the calamity to a great number of other innocent people.” The letter does not make the point; it is recorded because it is the ground of the verdict the letter quotes. Smith follows the verdict with a historical survey of the practice, beginning “Almost all states, however, antient as well as modern, when reduced to this necessity, have, upon some occasions, played this very juggling trick,” and running from the Roman *as* through the later European debasements (WN V.iii.61–65).

Letter’s claim: *“Your coin cannot be clipped. Your money can be printed. And a lender who is promised dollars is not promised what those dollars will buy. Between the end of 2020 and the end of 2023, your prices rose by about eighteen percent. A dollar promised at the start of those years and paid at their end bought about fifteen percent less. No king stamped a new name on anything. The promise had not changed. What the payment could buy had.”*

Textual Basis

This passage is the letter’s modern application and makes no claim about Smith beyond the analogy. Four points should be recorded.

First, the figures. The Consumer Price Index for All Urban Consumers (CPI-U, all items, not seasonally adjusted) stood at 260.474 in December 2020 and 306.746 in December 2023, a rise of 17.8 percent (U.S. Bureau of Labor Statistics). A fixed dollar payment therefore lost about 15.1 percent of its purchasing power over the period ($1 - 260.474/306.746$). The letter says “about eighteen percent” and “about fifteen percent.”

Second, the scope of the claim. The letter speaks of “a dollar promised at the start of those years and paid at their end,” which is a fixed nominal claim, and not of any bondholder’s total return, which depends on coupons, purchase dates, and reinvestment. It also does not apply to Treasury Inflation-Protected Securities. Nor does the letter say that lenders were deceived: a conventional Treasury security promises dollars, not purchasing power, which is what the sentence “a lender who is promised dollars is not promised what those dollars will buy” states. The calculation measures the decline in purchasing power of a fixed nominal payment, whether the inflation was anticipated or not. Expected inflation can be compensated through the yield at issuance; inflation exceeding expectations creates an additional real shortfall relative to what the creditor anticipated. The calculation does not measure that unexpected component, or a security’s total return.

Third, intent. Smith's pretended payment was a deliberate act of the sovereign. The letter does not claim that the inflation of 2021–2023 was undertaken to reduce the real value of the debt, and the sentence "No king stamped a new name on anything" is there to say so. The analogy is to the effect on the creditor, which was the effect debasement was designed to produce, not to the motive.

Fourth, the sequel. The calculation is not an estimate of the net fiscal effect of the inflation. Higher borrowing rates can offset reductions in the real value of existing fixed-rate debt as obligations mature and are refinanced, and any net calculation would need to account for the debt's maturity structure, indexed obligations, and the effects on revenues and expenditure. The letter does not attempt one, and neither does this paper; the point concerns what a fixed-dollar promise is.

"Your coin cannot be clipped" uses the image of clipping, which is a different abuse (shaving metal from coins in circulation) from the raising of denomination Smith describes. The letter uses it as the familiar picture of debasement, and the inflation sentence that follows does the precise work.

6. We Have Always Managed

Letter's claim: *"You will tell me the lenders still come. I said the same of my country. Britain 'seems to support with ease, a burden which, half a century ago, nobody believed her capable of supporting.' Then I added: 'Let us not, however, upon this account rashly conclude that she is capable of supporting any burden.'"*

Textual Basis

The two sentences are consecutive in Smith's text, at the end of a long paragraph that reviews the evidence for Britain's prosperity since the last war:

"Great Britain seems to support with ease, a burden which, half a century ago, nobody believed her capable of supporting. Let us not, however, upon this account rashly conclude that she is capable of supporting any burden; nor even be too confident that she could support, without great distress, a burden a little greater than what has already been laid upon her." (WN V.iii.58)

The paragraph that precedes them states the general judgment of which Britain is the apparent exception: "The practice of funding has gradually enfeebled every state which has adopted it" (WN V.iii.57), with the Italian republics, Spain, France, and the United Provinces as the cases, and it ends with the question the "with ease" paragraph answers: "Is it likely that in Great Britain alone a practice, which has brought either weakness or desolation into every other country, should prove altogether innocent?" The letter does not quote that paragraph; I record it because it

explains why Smith treats Britain's ease as a thing requiring explanation rather than as reassurance.

"You will tell me the lenders still come" is my framing of the modern form of the same confidence. "A bill that has not come is not a bill that will not come" is my gloss on the two quoted sentences. The letter's last lines (the question "who will find that the bill was theirs" and the instruction "Ask for the bill now") are mine; their substance is the letter's own argument.

7. What the Letter Omits

Two parts of Smith's chapter bear directly on the subject and were left out of the letter for length and focus. I record them so that a reader of the chapter does not take their absence for ignorance of them.

The burden of a domestically held debt. Smith addresses the argument that interest on a debt owed to a nation's own citizens is a mere transfer, "the right hand which pays the left," so that "the nation is not a farthing the poorer," and calls it "founded altogether in the sophistry of the mercantile system" (WN V.iii.52). His rebuttal has two parts. The premise is false in fact: "the Dutch, as well as several other foreign nations," had "a very considerable share in our publick funds" (V.iii.52). And it would be pernicious even if true, because what the government borrows is capital that had been maintaining productive labor and is, from the moment it is lent, "turned away from serving in the function of a capital, to serve in that of a revenue; from maintaining productive labourers to maintain unproductive ones, and to be spent and wasted, generally in the course of the year, without even the hope of any future reproduction" (V.iii.47). Funding, unlike taxation within the year, "is defrayed by the annual destruction of some capital which had before existed in the country" (V.iii.49). Smith immediately qualifies the comparison: because wartime taxes are lighter under funding, "the private revenue of individuals is necessarily less burdened, and consequently their ability to save and accumulate some part of that revenue into capital is a good deal less impaired," so that funding destroys more old capital but hinders the accumulation of new capital less (V.iii.49); he confines that advantage to wartime ("It is only during the continuance of war, however, that the system of funding has this advantage over the other system," V.iii.50), and he acknowledges that in Britain private frugality had so far repaired "all the breaches which the waste and extravagance of government had made in the general capital of the society" (V.iii.58). The taxes raised to pay the interest then fall on land and capital, discouraging improvement and, in the case of capital, inviting its removal abroad (V.iii.53–56).

Smith's own route to repayment. Smith's pessimism about repayment is a judgment about incentives and history, not a theorem that repayment is impossible. He names the condition: liberation of the public revenue "can never be brought about without either some very considerable augmentation of the publick revenue, or some equally considerable reduction of the publick expence" (WN V.iii.66). And in the imperial fiscal union he goes on to propose, he

computes a sinking fund that “might in this manner increase so very rapidly, as to be sufficient in a few years to discharge the whole debt” (WN V.iii.76). The letter presents his diagnosis of recurring incentives and historical practice, not a claim that every national debt must end in bankruptcy; the imperial proposal was the subject of the July letter and is not reused here.

8. Smith and the Later Literature

This section is my assessment, offered because the letter claims that Smith’s analysis anticipated later work, and a reader is entitled to know which later work.

The claim that debt finance changes the public’s willingness to approve expenditure, because the cost is not felt, is the “fiscal illusion” argument of the public-choice literature; see James M. Buchanan and Richard E. Wagner, *Democracy in Deficit: The Political Legacy of Lord Keynes* (New York: Academic Press, 1977). The denial that taxpayers internalize the future taxes behind a loan is the ground on which Ricardo rejected the proposition that now bears his name. The classical conclusion that an internally held debt is a burden was revived in James M. Buchanan, *Public Principles of Public Debt* (Homewood, Ill.: Irwin, 1958), against the view that such a debt is costless; Buchanan argued that the burden is shifted to the future taxpayers who service the debt, and he explicitly rejected the classical economists’ capital-destruction reasoning as confusing the effects of borrowing with the effects of the expenditure borrowed for. His book is therefore a related but distinct contribution, not a revival of Smith’s mechanism. Carmen M. Reinhart and Kenneth S. Rogoff, *This Time Is Different: Eight Centuries of Financial Folly* (Princeton: Princeton University Press, 2009), especially chapters 7 and 11–12, provide the modern historical comparison with Smith’s “pretended payment”: extensive evidence on domestic default, currency debasement, and inflation. Those episodes do not establish that every large debt must be discharged by one of those means, and the paper does not claim it; the book’s title names the confidence Smith’s “rashly conclude” sentence warns against. The sinking fund that “facilitates very much the contracting of new debts” is an early instance of a fiscal rule that eased the behavior it was meant to restrain.

None of this is in the letter beyond the Ricardo paragraph. I record it here because the letter’s claim to be reporting Smith rather than inventing him depends on the chapter having said what the letter says it said, and because the chapter said it before the literature that now carries these ideas under other names.