Jonathan Swift: Father of Supply-Side Economics?

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Jonathan Swift (1667–1745) is not generally thought of as an economic theorist. His best-known work is the great satire, *Gulliver's Travels* (1726). However, in 1728 he published a paper that came to have an unusual influence on the history of economic thought. Indeed, he may be considered to be the father of supply-side economics.

Swift's paper is entitled, *An Answer to a Paper Called a Memorial of the Poor Inhabitants, Tradesmen, and Labourers of the Kingdom of Ireland.* In the course of this paper, Swift makes the following observation:

> I will tell you a *Secret,* which I learned many Years ago from the Commissioners of the *Customs* in *London:* They said, when any *Commodity* appeared to be taxed above a *moderate Rate,* the Consequence was to lessen that Branch of the Revenue by one Half; and one of those Gentlemen pleasantly told me, that the Mistake of Parliaments, on such Occasions, was owing to an Error of computing Two and Two to make Four; whereas, in the Business of laying *heavy Impositions,* Two and Two never made more than One; which happens by lessening the Import, and the strong Temptation of running such Goods as paid high Duties. ([1728] in Davis 1964, 21)

Aside from being one of the earliest references to a principle that has become known as the "Laffer Curve," which shows that a tax or tariff

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rate may be set so high as to reduce revenue below what a lower rate would raise, Swift's brief comment appears to have inspired some of the leading economic and political theorists of the eighteenth, nineteenth, and twentieth centuries.[1]

David Hume was one of the first to draw inspiration from Jonathan Swift. In 1752, Hume published his essay, "Of the Balance of Trade," in which he put forward his own version of the Laffer Curve:

> We ought, however, always to remember the maxim of Dr. Swift, That, in the arithmetic of the customs, two and two make not four, but often make only one. It can scarcely be doubted, but if the duties on wine were lowered to a third, they would yield much more to the government than at present. ([1752] 1985, 324–25)

In 1774 Lord Kames quoted Swift in his *Sketches of the History of Man*. However, it was Adam Smith in *The Wealth of Nations* (1776), who gave Swift's observation its greatest renown. Smith took note of Swift's comment to put forward his own version of the Laffer Curve.

> The high duties which have been imposed upon the importation of many different sorts of foreign goods, in order to discourage their consumption in Great Britain, have in many cases served only to encourage smuggling; and in all cases have reduced the revenue of the customs below what more moderate duties would have afforded. The saying of Dr. Swift, that in the arithmetic of the customs two and two, instead of making four, make sometimes only one, holds perfectly true with regard to such heavy duties, which never could have been imposed, had not the mercantile system taught us, in many cases, to employ taxation as an instrument, not of revenue, but of monopoly. ([1776] 1937, 832–33)[2]

It is well known that the ideas of Smith and Hume exerted a great influence on the economic thinking of the founding fathers in America

1. Laffer has drawn an explicit parallel between a tariff which is so high as to reduce government revenue, by reducing imports and encouraging smuggling, and the "Laffer Curve" (see Laffer and Miles 1982, 110–11). Of course, discussion of a revenue tariff has always noted that tariff rates can be so high as to reduce revenue (see Johnson 1951–52, 28–35; Caves and Jones 1985, 220–22).

2. A few pages later, Smith was somewhat more explicit on this point. "High taxes, sometimes by diminishing the consumption of the taxed commodities, and sometimes by encouraging smuggling, frequently afford a smaller revenue to government than what might be drawn from more moderate taxes" (835).

(Keleher 1982). Again, however, Swift seems to have been an influence as well. In Federalist 22, Alexander Hamilton discusses the possibly counterproductive effects of high tax rates, drawing conclusions consistent with the Laffer Curve.

> It is a signal advantage of taxes on articles of consumption that they contain in their own nature a security against excess. They prescribe their own limit, which cannot be exceeded without defeating the end proposed—that is, an extension of the revenue. When applied to this object, the saying is as just as it is witty that, "in political arithmetic, two and two do not always make four." If duties are too high, they lessen the consumption; the collection is eluded; and the product to the Treasury is not so great as when they are confined within proper and moderate bounds. (1961, 142–43)

More than likely, Hamilton's reference to the arithmetic of tariffs was drawn from Smith, rather than Swift. Nevertheless, through the nineteenth and twentieth centuries, economists continued to cite Swift in describing the effects of high tariffs. For example, in his treatise on taxation, J. R. McCulloch wrote,

> Every tax, by raising the price of the commodity on which it is laid, tends to bring it within the command of a smaller number of purchasers, and to lessen its consumption. Dr. Swift has shrewdly remarked that, in the arithmetic of the customs, two and two do not always make four, but sometimes only one. . . . And hence, whenever the duties on commodities are raised beyond certain limits, which, however, it is impossible to define, inasmuch as they necessarily vary according to the nature of the commodities, and the varying tastes and circumstances of society—their effect is to depress consumption to such an extent as to render them less productive than if they were lower. (1852, 326)

In the twentieth century, Hugh Dalton used Swift to explain the difference between a tax and a prohibition.

> Similarly with customs duties, in the language of which, as Swift remarked, two plus two is often less than three. If, as the rate of a particular duty is increased, the revenue yielded increases, the duty is predominantly a tax. But when the rate is increased above the point at which the yield in revenue is a maximum, it is clear that

> some element of penalty is present, and we finally reach a duty of prohibitive amount, whose yield is very small or even non-existent. ([1922] 1954, 20)

While it is not clear that these economists actually derived the idea of declining revenue from excessive tariffs from Swift, it is clear that his catchy way of describing the idea had profound influence. Perhaps, therefore, some small credit for developing the Laffer Curve should go to Jonathan Swift.

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