

**Author:**

Stefano Mieli

Former Managing Director for Banking Supervision and Regulation, Banca d'Italia, Rome – Italy

*We stand to profit from visits to the lumber room*

J.A. SCHUMPETER

*L'Essai sur le commerce de M. Melon est l'ouvrage  
d'un homme d'esprit, d'un citoyen, d'un philosophe*

VOLTAIRE

## JEAN-FRANÇOIS MELON CONTRIBUTION TO THE THEORY OF PUBLIC DEBT: A FIL ROUGE CONNECTING THE ECONOMIC DEBATE FROM THE 18<sup>TH</sup> CENTURY UNTIL THIS DAY\*

### ABSTRACT

Jean-François Melon, a John Law follower writing in a period which is considered the last phase of Mercantilism, depicted in his *Essai politique sur le commerce* (1734) public debt as debts from the right hand to the left one.

Melon's work is today known only by a few specialists and is often considered a curiosity of the early stages of the economic discipline.

The aim of this paper is to examine briefly the debate on public debt over the centuries, outlining the impact and the today's relevance of the French economist contribution.

The analysis of his *Essay* makes possible to see him as a forerunner in the field of economic theory: in particular, he anticipated to a certain extent the Keynesian belief of the possibility of sustaining the level of economic activity via deficit financing.

However, he should be considered at least as the man who gave vent to intense debates on public debt from the 18<sup>th</sup> century until this day.

**Keywords:** Public Debt; History of Economic Thought

**JEL Classification:** B11; B12; B13; B21; B22; H60; H63

---

\* I thank Enzo Croce, Antonio Di Majo, Nicolas Mathieu and Marion Young for their comments and suggestions on an earlier draft of this paper. The usual disclaimers apply.

## RIASSUNTO

*Il contributo di Jean-François Melon alla teoria del debito pubblico e la sua influenza nel dibattito economico dal diciottesimo secolo fino ai giorni nostri*

Jean-François Melon, un seguace di John Law che ha vissuto e scritto in un periodo considerato l'ultima fase del Mercantilismo, ha rappresentato nel suo *Essai politique sur le commerce* (1734) il debito pubblico come un debito della mano destra alla sinistra.

Il lavoro di Melon è oggi conosciuto da pochi specialisti ed è spesso considerato una curiosità degli albori della disciplina economica.

Questa nota si pone l'obiettivo di ripercorrere sinteticamente il dibattito sul debito pubblico svoltosi negli ultimi secoli ponendo in luce l'importanza del contributo dell'economista francese. L'analisi del suo *Essai* consente in particolare di attribuire a Melon un ruolo di precursore nell'evoluzione della teoria economica, ad esempio, anticipando in qualche modo il tema keynesiano della possibilità di sostenere l'attività economica attraverso la spesa pubblica finanziata in deficit.

In ogni caso, egli dovrebbe almeno essere considerato come un pensatore che ha notevolmente stimolato l'acceso dibattito sul tema del debito pubblico svoltosi dal diciottesimo secolo ai giorni nostri.

## 1. INTRODUCTION

Most economists and virtually all the public finance experts know the metaphor depicting the public debt as debts from the right hand to the left one. However, not so many economists – excluding a few specialists in the history of economic thought – looked in depth at the work of Jean-Francois Melon who first used this hard-hitting but controversial analogy<sup>1</sup>.

Melon wrote in the first half of the 18th Century. He is often considered a mercantilist, although his views do not quite fit the criteria which characterize the best known other pre-classical thinkers, usually assumed to be representatives of the “mercantilist system”.

Soon after being published, the main part of Melon's work, the *Essai politique sur le commerce* (henceforth mentioned as *Essai*) became an authoritative book in the field of economics not only

---

<sup>1</sup> Melon (1734).

in France, but all over Europe<sup>2</sup>. Among the several topics dealt with in the book, the theory expressed in the *Essai* on the public debt attracted the interest of the thinkers of his time, although some of them strongly disagreed with it. The strongest criticisms were made after the death of Melon, more specifically by the economists belonging to the classical school. Later, Melon's book – including his considerations on public debt – was regarded as a *naïve* approach to economics, at most studied as a mere historical curiosity. Following Keynes' partial rehabilitation of mercantilism and contributions by other keynesian authors, there was a more favorable attitude towards works like the *Essai*, which in any case remained mainly studied by historians of the economic thought.

The aim of this paper is to examine briefly the main aspects of the debate on public debt over the centuries, outlining the impact of Melon's work, even when not directly quoted. The analysis should help to evaluate today's relevance of the French economist contribution. After this introduction (Section 1) the paper offers a very short description of Melon's professional biography and attempts to insert his work within the intellectual framework of his time (Section 2). Section 3 is devoted to the illustration of what Melon says on public debt and of its impact, mostly positive, on the intellectual *milieu* of his time. Section 4 deals with the first criticisms of Melon's theory on public debt expressed by the preclassical and classical economists. In Section 5 the neoclassical economists' views in the 19th century are considered. Section 6 deals with Melon's revival following the keynesian revolution and the reactions of neoclassical economists in the 20th century. The present day debate is then shortly outlined. Section 7 concludes the paper.

## 2. MELON AND HIS WORK

Melon (1680-1738) worked and wrote in a period which is considered the last phase of mercantilism. To try to include at a later stage representatives of a discipline in a well identified school is always more or less arbitrary. In the case of the so called mercantilists it could be questionable to put various thinkers from different countries under the same banner: they wrote on matters pertaining to economics over more than two centuries<sup>3</sup>. A few authors prefer to call pre-smithians the economists who published essays before the "Wealth of Nations", physiocrats

---

<sup>2</sup> Forbonnais (1753) who quotes "*l'excellent Essai de M. Melon*" in the *Encyclopedie* edited by Diderot and d'Alembert.

<sup>3</sup> Reinert and Reinert (2005).

included<sup>4</sup>. The same term “mercantilism” started to be used not by the alleged exponents of that school, but by the economists belonging to the school later called classical<sup>5</sup>. In fact, Adam Smith, probably the main opponent of the mercantile system, enumerated its features and criticized them at length. More specifically, Smith put the blame on the dirigiste policy concerning cross border trade aimed at increasing export and at reducing import to obtain inflows and hoarding of precious metals. The belief that gold and silver represent the wealth of a country (Midas fallacy) is at the same time the main pillar and the most prominent mistake of mercantilism according to classical and other economists.

Melon had a successful career and gained on-field practical experience of economic phenomena before fully devoting himself to intellectual works. He started as a lawyer (*avocat*) in Bordeaux but he soon became an influent member of the intellectual *elite* of the town, until he was selected by the Minister of Foreign Affairs Dubois who called him to Paris. The peak of his professional career was probably reached when he served as secretary to John Law<sup>6</sup>. Actually, Melon did not work for a long time with the brilliant Scot. Law gained the confidence of the Regent of France Philippe d’Orleans and tried to solve with audacious financial initiatives the budget problems inherited from the Reign of King Louis XIV<sup>7</sup>. His system in fact collapsed in 1720, not very long after Melon stepped in. Anyway the time spent with Law strongly influenced Melon and his later work. The French economist showed also a deep knowledge of the economic thought of his time and in particular of William Petty’s<sup>8</sup>.

The *Essai* is known for other considerations in addition to those on public debt, *inter alia*, the support to the Law’s system and the defense of luxury<sup>9</sup>. As regard to his adhesion to mercantilism, Melon is certainly not a “bullionist”, in the sense that he does not give much importance to gold and silver which for him do not represent the wealth of a country. As far as trade is concerned he believes in the virtues of free movements of goods across national border, to be limited only in specific cases<sup>10</sup>. Of course we have to consider that Melon lived at the height

---

<sup>4</sup> Blaug (1997).

<sup>5</sup> The word mercantilism stems probably from the expression « *système mercantile* » introduced by Mirabeau (1763) and largely used by Adam Smith. The transposition from *système mercantile* to mercantilism in the anglo-saxon literature is probably linked to the works of German authors. See: Schmoller (1896).

<sup>6</sup> For more biographical details, see Rebière (1896).

<sup>7</sup> Murphy (2007) and Boyer-Xambeu (1987).

<sup>8</sup> Petty is quoted many times in the *Essai*, for instance to point out the groundbreaking estimation of National Income made by the English economist.

<sup>9</sup> Another subject very controversial and hardly understandable nowadays is Melon’s support of slavery.

<sup>10</sup> Melon (1734), p. 11: “*Il est peut-être nécessaire de détruire ici l’erreur de ceux qui croient que les Pays abondans en*

of the absolutist State. France had been deeply involved in wars with other European countries requiring huge expenses. The state of French treasury had deteriorated during the end of the 17th Century and the first years of the 18th Century. Military expenses and the costs related to the *grandeur* attitude shown during the long *Roi Soleil* Reign put an enormous stress on public finance. It is in this historical framework that the origin of high public debt in modern States can be traced<sup>11</sup>. Consequently, heated debates on this subject took place in the intellectual circles to find ways to cope with the phenomenon.

### 3. WHAT MELON SAYS ON PUBLIC DEBT AND ITS IMPACT ON CONTEMPORARY ECONOMISTS

Unlike other issues extensively discussed in the *Essai*, considerations on public debt are rather concise, albeit unequivocal.

On the other hand some of the arguments dear to Melon such as those relative to the monetary system and to the role of a bank which could be defined as “central” are closely linked to public debt issues.

According to Melon the sovereign debt has to be dealt differently in different situations. Sometimes, it could be useful to finance extraordinary expenses with debt. On other occasions, debts can be gradually payed back if the circumstances become favorable<sup>12</sup>.

The right hand lending to the left one analogy means that the public debt cannot be harmful for the State (with modern language we would say that there is just a “distributive” problem)<sup>13</sup>. Of course, the focus was on internal debt. From an empirical point of view, Melon mentions the English case. England, in fact, was a country considered particularly rich despite having a very

---

*mines d'or & d'argent sont les plus riches” and p. 12: “La force d'un Pays vient de sa plus grande quantité de denrées de première nécessité. L'or et l'argent qui n'en sont que le gage, n'y suppléent qu'autant que ces denrées abondent dans les îles de leur production; au lieu que ces métaux peuvent être supplées, & le sont effectivement, par des représentations arbitraires”. See also p. 151: “la liberté dans le Commerce ne doit pas consister dans une imprudente licence aux Négocians d'envoyer & recevoir toute sorte de marchandises, mais seulement des marchandises dont l'Exportation ou l'Importation peut procurer à chaque Citoyen des facultés d'échanger son superflu pour le nécessaire qui lui manque, conformément à la définition du Commerce”. **N.B. the spelling of some words was not precisely codified in old French and can be different today.***

<sup>11</sup> See also the forerunner cases of Venice and Florence and, especially, Genoa with the Banco di San Giorgio (Luzzatto, 1963).

<sup>12</sup> Melon (1734), p. 238: “Les dettes, dans une Nation policée, sont une suite nécessaire des guerres, ou des événements extraordinaires” and p. 239: “Dans les tems tranquilles, les Nations endettées s'acquittent peu à peu en assignant une portion des revenus à la libération des capitaux”.

<sup>13</sup> Melon (1734), p. 296: “Les Dettes d'un État sont des Dettes de la main droite à la main gauche, dont le corps ne se trouvera point affaibli, s'il a la quantité d'aliments nécessaires, & s'il sait les distribuer”.

high public debt<sup>14</sup>. Remarks on monetary and financial aspects are particularly interesting. First of all, the difference between the households and the State as the budget constraint – as we call it in modern language – is concerned, is emphasized<sup>15</sup>. Later, the role of the bank in the developing process is described with reference to the banking system of Venice, Amsterdam and Hamburg<sup>16</sup>. Eventually, Melon states the principle that, if necessary, it is possible to take some measures such as the “alteration” of the relative value of accounting and metallic currency. The so called *diminutions* decided by the king benefit all the debtors. In particular, the biggest of them, the State, is able to get a significant reduction of the burden of the debt.

In the *Essai* are discussed the advantages of debt, even if indebtedness cannot be considered without limit<sup>17</sup>. The opportunity of a recourse to debt in some circumstances is anyway consistent with an approach supporting the boosting of economic activity (or commerce, in the language of that time) through what today we call an expansionary policy<sup>18</sup>. There are many examples of such approach: policies aiming at increasing internal and external trade and at supplying liquidity in the economic system. But also to boost consumption, avoiding to restrain luxury by passing sumptuary laws. According to Melon an expenditure, even if frivolous, is better for the economy rather than hoarding the money<sup>19</sup>.

Melon's contemporaries were very much influenced by his work. François Marie Arouet, best known with the *nom de plume* of Voltaire, read Melon's book soon after it was published and was positively impressed by it. The deep impact of Melon's views is shown in Voltaire's “*Le Mondain*” and “*Dictionnaire Philosophique*” where the role of luxury is stressed<sup>20</sup>. Following the *Essai*, Voltaire expressed his views on public debt, saying that a State owing to itself cannot be considered poorer<sup>21</sup>. Voltaire points out explicitly the positive consequences of public

<sup>14</sup> Melon (1734), p. 296: “Il parut en 1731, un Mémoire Anglois, pour prouver qu'un Etat devenoit plus florissant par ses Dettes. Il s'autorisoit de l'exemple de la Grande-Bretagne, dont les Dettes immenses forment, dit-il, la grande puissance actuelle, par leur abondante circulation”.

<sup>15</sup> Melon (1734), p. 180: “Le Particulier règle sa dépense sur les revenus, mais le Roi règle le revenu sur la dépense nécessaire à la conservation de l'Etat”.

<sup>16</sup> Melon (1734), p. 304: “C'est à ce crédit que les Républiques doivent leurs richesses, & leur puissance. On le compare avec Naples, Sicile & c, Pays fertiles, où le défaut de circulation laisse toujours les habitants dans la misère”.

<sup>17</sup> Melon (1734), p. 298: “L'Auteur du Mémoire que nous venons de citer, ne peut pas vouloir dire qu'une quantité illimitée de dettes est avantageuse, l'extravagance serait outrée, mais il n'en assigne point les bornes”.

<sup>18</sup> Perrotta (1997).

<sup>19</sup> Melon (1734), p. 123 “La cherté excessive de quelques denrées frivoles, que l'homme somptueux étale avec profusion dans un repas” concludes: “Pourquoi se récrier sur cette folle dépense? **Cet argent gardé dans son coffre, serait mort pour la société**” (emphasis added).

<sup>20</sup> Luxury was probably a concept most extensive than today, including everything not necessary to subsistence.

<sup>21</sup> Voltaire (1738), p. 589: “un Etat qui doit à lui-même ne peut s'appauvrir”.

expenditure financed by debt<sup>22</sup>. The French philosopher does not explain how debt may boost economic activity (the industry). According to some authors, the impact could be due only to the interest payments accrued to debt holders, but it is more plausible to assume that economic activity is influenced by deficit spending.

Dutot, who was another of Law's secretaries, wrote a book to criticize some statements expressed in the *Essai*. Nonetheless, Dutot, like Melon, thinks that public credit<sup>23</sup> and bank bills have a favorable impact on the economy<sup>24</sup>. In particular, he considers credit the major resource and the greatest strength of the State. To support this view, he refers to the English experience<sup>25</sup>.

In Italy as well the *Essai* became widely read and aroused a great deal of interest, for example in Muratori (1749). The debate was particularly intense among the exponents of the Neapolitan School, which was at the vanguard of economic thinking. Melon's work was probably firstly introduced by Bartolomeo Intieri who distributed the book among colleagues and disciples<sup>26</sup>. Genovesi appreciated Melon's book. His disciple Longano translated it and criticized some of its views<sup>27</sup>. Ferdinando Galiani quoted several times Melon. He describes him as a man of an outstanding ingeniousness and honesty<sup>28</sup>. Galiani's comments refer mainly to the subject of "augmentation" or "raising". Even if he does not quite share Melon's considerations on this point, he agrees that such a practice makes the main debtor, the Prince, better off<sup>29</sup>. Furthermore, when Galiani says that it is impossible for the Prince to be debtor to his subjects as it would mean to be debtor to himself, he seems to use Melon's analogy<sup>30</sup>.

In England too the *Essai* was studied and appreciated. We do not know if the Bishop of Cloyne really read the French book, but the query "Whether the credit of the public funds be not a mine

<sup>22</sup> Voltaire (1738): "*et ces dettes sont un nouvel encouragement de l'industrie*".

<sup>23</sup> Public credit was at Melon's time used as synonym of public debt.

<sup>24</sup> Bills printed by Law's Banque Générale as Louis XIV's Billets de Monnays granted a yield.

<sup>25</sup> Dutot (1738): "*le crédit est donc la plus grande richesse de tout homme qui exerce le Commerce: d'où je conclu qu'il doit faire la plus grande ressource & la plus grande force de l'État. L'Angleterre nous en fournit une preuve incontestable*".

<sup>26</sup> *Inter alia*, Broggia (1743) quotes many times Melon and discusses his views. On Broggia see Graziani (2004).

<sup>27</sup> Balletta (2001), Matarazzo (2009). The first Italian edition of the *Essai* was probably published in Venice by Girolamo Costantini in 1754; later, others followed (Carnino, 2014).

<sup>28</sup> "*uomo d'ingegno grandissimo e d'animo veramente onesto e virtuoso*": Galiani (1750), Proemio.

<sup>29</sup> On luxury too Galiani does not share Melon's view. On Galiani see Cesarano (1990).

<sup>30</sup> "*Essendo il Principe quella persona che rappresenta tutti i sudditi suoi, i quali si può in qualche modo dire che in lui vivano, operino e si sostengano, siccome è impossibile ch'ei sia debitore a se medesimo, così non può essere vero debitore de' suoi sudditi stessi*": Galiani (1750).

of gold to England?” could show the impact of Melon’s work<sup>31</sup>.

Sir James Steuart knew the *Essai* as well as the writings of the other economists. The Steuart approach to the Public Debt topic is worth a few words. His point of view is very close to Melon’s one, albeit the *Essai*, published many years before, had already received many criticisms (see Hume, *infra*). Particularly interesting is the way Steuart proceeds to explain the reasons of his strong support to public indebtedness. For him, it can play a significant role in sustaining economic activity. Steuart says:

“the effect of public borrowing, or national debt, is to augment the permanent income of the country, out of stagnating money, and balances of trade”. And also: “public borrowing, for domestic purposes, has the good effect of giving vent to the stagnation and throwing the money into a new channel of circulation”<sup>32</sup>.

#### 4. PRECLASSICAL AND CLASSICAL ECONOMISTS’ CRITICISMS OF MELON’S VIEWS ON PUBLIC DEBT

As far as I have been able to trace, Hume never quoted Melon. Nevertheless, he paraphrased the hands metaphor when he wrote the part of his work dealing with public debt<sup>33</sup>. Hume concedes that public debt can be advantageous for particular portions of society and in some occasions can also have a positive impact on commerce. But he believes that, aside these few exceptions, public indebtedness can have serious negative consequences. He concludes his analysis with the historical sentence:

“either the nation must destroy public credit or the public credit will destroy the nation”<sup>34</sup>.

Montesquieu is a fierce critic of Melon’s views on public debt: he does not even allow for the limited advantages described by Hume<sup>35</sup>.

<sup>31</sup> Berkeley (1737), query n. 233.

<sup>32</sup> Steuart (1767).

<sup>33</sup> Hume (1741), Part II, Essay IX. 17: “we have, indeed, been told that the public is not weaker upon account of its debts; since they are mostly due to ourselves... It is like transferring money from the right hand to the left; which leaves the person neither richer nor poorer than before”.

<sup>34</sup> In Hume’s work five disadvantages of public debt are described.

<sup>35</sup> Montesquieu (1748). According to Montesquieu there is often confusion between money and debt; only on the latter it is necessary to pay interest. The disadvantages of public debt described by Montesquieu are not very different from those of Hume:

“Mais voici les inconvénients qui en résultent:

1. Si les étrangers possèdent beaucoup de papiers qui représentent une dette, ils tirent, tous les ans, de la nation, une somme considérable pour les intérêts.
2. Dans une nation ainsi perpétuellement débitrice, le change doit être très bas.
3. L’impôt levé pour le paiement des intérêts de la dette, fait tort aux manufactures, en rendant la main de l’ouvrier

Adam Smith does not quote Melon explicitly, but writes extensively in order to criticize his insights on public debt which deeply influenced his followers<sup>36</sup>. According to the Scottish economist

“capital advanced to government was a certain portion of the annual produce, turned away from serving in the function of a capital, to serve in that of revenue”.

To some extent, Smith introduces the theory of crowding out, even if he uses the categories of productive laborers *versus* the unproductive ones. In this classical framework, to finance an expenditure with a tax has a less negative impact than financing it with debt. According to him, in the latter case at least a part of the resources are spent in an unproductive way. Smith stresses also the point – as Hume already did – that there is a difference between internal and external debt (government securities held by nonresidents in today’s language) even if he considers that both have a negative impact.

Say criticizes Melon’s analogy with similar lines of reasoning to Smith’s:

“L’État se trouve affaibli en ce que le capital prêté au gouvernement, ayant été détruit par la consommation que le gouvernement en a faite, ne donnera plus à personne le profit ou, si l’on veut, l’intérêt qu’il pouvait rapporter en sa qualité de fond productif”<sup>37</sup>.

Ricardo in a footnote of his *Principles* quotes both Say and Smith criticisms on Melon and in particular the phenomenon of the reduction of productive labour caused by public debt. He commented:

“this is both conceived and expressed in the true spirit of the science”<sup>38</sup>.

Ricardo is well known for the “ricardian equivalence”, that is to say the equivalence of the impact of financing an expenditure by tax or debt. Nevertheless, for him the equivalence is merely

---

*plus chère.*

4. On ôte les revenus véritables de l’État à ceux qui ont de l’activité ou de l’industrie, pour les transporter aux gens oisifs; c’est-à-dire, qu’on donne des commodités pour travailler à ceux qui ne travaillent point, et des difficultés pour travailler à ceux qui travaillent”.

<sup>36</sup> Smith (1776), p. 764: “The public funds of the different indebted nations of Europe, particularly those of England, have by an author, been represented as the accumulation of a great capital, superadded to the other capital of the country, by means of which its trade is extended, its manufactures are multiplied, and its lands cultivated and improved, much beyond what they could have been by means of that other capital only.” and p. 766: “In the payment of the interest of the public debt, it has been said, it is the right hand which pays the left”.

<sup>37</sup> Say (1803).

<sup>38</sup> Ricardo (1817), Cap. 17, p. 177.

theoretical and does not hold in the real world<sup>39</sup>. Ricardo in practice has a very negative attitude towards public debt<sup>40</sup>. Actually he thinks that credit has never a positive role, even in the private sector. On this point he criticizes Say, a thinker he generally appreciates, when the French economist describes in a very modern terms the allocative function of credit<sup>41</sup>.

Malthus does not write extensively on public indebtedness. Nevertheless, he opposes policies to reduce public debt after the Napoleon Wars because it would intensify recession. This economist, later considered as a Keynes' precursor, does not believe in Say's Law and has instead an approach which considers crucial the role of demand<sup>42</sup>.

## 5. NEOCLASSICAL ECONOMISTS ON MELON

As time went by, Melon was almost forgotten. Anyway, neoclassical economists are not particularly interested in public debt and on this topic have opinions very similar to those of the classical economists. An important exception to the indifference towards public debt in the period going from the end of the 19th century and the beginning of the 20th century, is represented by the so-called Italian School of public economics<sup>43</sup>. We should keep in mind that Italian politicians and economists have always shown a watchful interest in public debt which has been very high from the start of unified Italy<sup>44</sup>.

There was a heated debate within the circle of experts of public finance whether the public debt burden would fall or not on future generations<sup>45</sup>. The origin of this controversy can be found in what Buchanan calls the ricardian equivalence and its criticism expressed by Ricardo himself<sup>46</sup>. If there is not a substantial difference when an expenditure is financed by tax or debt it is meaningless to discuss of a burden on future generations<sup>47</sup>.

---

<sup>39</sup> See the debate on the burden of the debt and next generations.

<sup>40</sup> "*It is by the profuse expenditure of Government, and of individuals, and by loans, that the country is impoverished*" Ricardo (1817).

<sup>41</sup> Ricardo (1817) considers a *faux pas* Say's views on this point.

<sup>42</sup> Dome (2004).

<sup>43</sup> For a broad vision, Fausto (2012). On specific economists: Kayaalp (1989), Di Majo (2005).

<sup>44</sup> On the origin of the Italian public debt, Pedone (2012).

<sup>45</sup> Balassone *et al.* (2004).

<sup>46</sup> Buchanan (1958) was the first to call ricardian equivalence the theory exposed by Ricardo in the Principles (see Section 4). The so called ricardian theorem was deeply studied by De Viti De Marco (1893). See also Barro (1974).

<sup>47</sup> Pantaleoni (1891).

The Italian School economists seem to have no particular recollection of Melon's work. Although, we can quote Ricca Salerno and De Viti De Marco: the former wrote that we must not confuse the debt of a society and the debt of a household<sup>48</sup>; the latter is known for the theory of the "automatic" amortizing of public debt<sup>49</sup>.

Last but not least, it is worth to recall the position of an English neoclassical economist which is consistent with Melon's one. Pigou stresses the difference between external and internal debt, stating that the latter can have allocative effects, but cannot impose a burden on next generations<sup>50</sup>.

## 6. KEYNESIANS AND MELON

Melon's views are back to a certain extent with the spreading of the works of John Maynard Keynes who is well acquainted with the economists of the past and "rehabilitates" explicitly mercantilism in the Appendix to The General Theory. The book, considered the manifesto of the keynesian revolution, does not deal with public debt<sup>51</sup>. Actually Keynes does not seem very interested in the stock of debt all over his whole work but this position is at least partially consistent with the emphasis he puts on the short period. Some economists consider him particularly "prudent" on this point<sup>52</sup>. Anyhow, Keynes is certainly in favor of deficit spending to increase aggregate demand to reach full employment. So, he seems in accordance with the work of the so-called "underconsumptionists" who wrote mainly in the 18th century and more specifically with Melon's work<sup>53</sup>.

Much more explicit on the topic of public debt is Lerner. This "ultrakeynesian" economist considers simply irrelevant public debt until the excess of debt financing produces an overheating of the economic system causing inflationary pressures. The author of the

<sup>48</sup> Ricca Salerno (1879): *"il caso di una società debitrice verso una parte di se medesima con quello di un individuo debitore verso un altro"* (emphasis added).

<sup>49</sup> De Viti De Marco (1893): *"Col prestito il bilancio dello Stato si aggrava della spesa degli interessi a cui risponde l'entrata per egual somma. E' per lo Stato una partita di giro; ma non è tale nel bilancio economico della collettività, come talvolta è stato affermato"* (emphasis added). Later, De Viti De Marco (1928) explains that, with the diffusion of the government securities (he calls it democratization of the debt), public debt can be considered substantially extinct via a phenomenon he calls automatic amortization.

<sup>50</sup> Pigou (1951), p. 38: *"interest and sinking fund on internal (emphasis original) loans are merely tranfers from one set of people in the country to another set, so that the two sets together – future generations as a whole – are not burdened at all"*.

<sup>51</sup> Keynes (1936).

<sup>52</sup> Aspromourgos (2014).

<sup>53</sup> Ward (1959).

“Functional Finance” thinks that deficit and debt are just economic policy instruments. For the purpose of this paper, it is particularly significant to point out that Lerner uses the sentence “we owe it to ourselves” introduced by Hume probably referring to Voltaire (*l’État qui doit à lui-même*) and, ultimately, to Melon’s metaphor<sup>54</sup>.

Domar is another keynesian economist who had a deep impact on the public debt debate. In his article published during the second world war he speculates on the topic of sustainability of the debt<sup>55</sup>. After Domar’s contribution, the risk of an uncontrolled growth of debt – not only in absolute terms but also as a ratio to GDP – became the main topic of the debate. Actually, Domar looks worried especially by the low level of employment and was in favour of using, when necessary, deficit spending and growing debt (in absolute terms): an approach not very different than Melon’s<sup>56</sup>.

Neoclassical economists reacted forcefully to the keynesian position. In particular, Buchanan dedicated many pages to criticize the keynesian approach on debt and especially Lerner’s<sup>57</sup>. First of all, Buchanan points out that these theories aren’t new, quoting Melon and his followers, as Voltaire, Condorcet and Steuart (he calls him Stuart). The Buchanan’s criticism of the “new orthodoxy” is very detailed and try to demonstrate the failures in the keynesian pillars on public debt. According to Buchanan the burden of the debt is put on the new generations, the private and public debt analogy is substantially right and external and internal debt are fundamentally equivalent. Analyzing the latter point, he considers false the “we owe it to ourselves” postulate<sup>58</sup>.

Keynesian economists replied to the criticisms. Lerner reaffirmed his position, explaining that the Buchanan’s approach is partial. In fact, it takes into account only the burden for the taxpayers, while dismissing the benefits for the whole society, as Melon did<sup>59</sup>.

---

<sup>54</sup> Lerner (1943) and (1948).

<sup>55</sup> Domar (1944).

<sup>56</sup> Domar (1944): “*When post-war fiscal policy is discussed, the public debt and its burden loom in the eyes of many economists and laymen as the greatest obstacle to all good things on earth. The remedy suggested is always the reduction of the absolute size of the debit or at least the prevention of its further growth. If all the people and organizations who work and study, write articles and make speeches, worry and spend sleepless nights- all because of fear of the debt – could forget about it for a while and spend even half their efforts trying to finds ways of achieving a growing national income, their contribution to the benefit and welfare of humanity – and to the solution of the debt problem – would be immeasurable*”.

<sup>57</sup> Buchanan (1958).

<sup>58</sup> Buchanan (1958), 2.4.1 and 2.6.2.

<sup>59</sup> Lerner (1959) p. 204: “*the existence of internal debt does not mean that the economy is either poorer or richer than it would be if the debt did not exist and everything else were the same because every debt is balanced by a credit and*

According to Modigliani the burden of debt spending does not consist in the future increase of tax, but in the income diminution caused by the reduction of the stock of capital<sup>60</sup>. Modigliani carries out an extensive analysis to demonstrate that a deficit spending policy in a deflation phase can place a “gross burden” on next generations. But usually it has a positive net impact especially by virtue of the multiplier effect. In practical terms, the income gain should be

“appreciably larger than the lost stock of capital which approximates the present value of the sacrificed income stream”<sup>61</sup>.

Tobin also rejects the Buchanan criticisms in an article he wrote to comment a book on public debt published in the sixties<sup>62</sup>. First of all, Tobin points out the difference between internal and external public debt. Then, he criticizes the whole approach followed by Buchanan. For the latter, a tax is *per se* a burden by virtue of the fact that it is not the result of a market transaction. If this assumption holds, to postpone taxes to the future puts by definition the burden of expenditure to new generations<sup>63</sup>.

The debate on public debt intensified as its amount showed an increasing trend in many countries. Apart from the supporters of the theory of rational expectations who believe in the neutrality of debt, critics of public debt are usually against public intervention in the economy<sup>64</sup>. They are suspicious of public spending and have a preference for a balanced or even a surplus budget. This approach gained many followers in the last years among politicians and influenced the economic policy of many countries<sup>65</sup>.

Many economists, especially those who accept to be called keynesians, consider public indebtedness mainly as an instrument of economic policy. A large part of them (including the representatives of the so-called neoclassical synthesis) deems that excesses are dangerous and can jeopardize sustainability<sup>66</sup>. Other keynesian economists (among them the so-called post-keynesians) do not deny some “collateral” effects but are not particularly worried by public debt.

---

*because both the debtor and the creditor are part of the economy”.*

<sup>60</sup> Modigliani (1961), p. 89.

<sup>61</sup> Modigliani, (1961).

<sup>62</sup> Tobin (1965) and Ferguson (1964).

<sup>63</sup> Tobin, (1965), p.680.

<sup>64</sup> Barro (1974).

<sup>65</sup> For example, same European countries following the so called “fiscal compact” (Treaty on Stability, Coordination and Governance in the Economic and Monetary Union) incorporated into their Constitution a “golden rule” requiring balanced budgets.

<sup>66</sup> Domar (1944) and (1945).

In particular, when the debt is internal they insist to say, with an approach consistent with Melon's, that we owe it to ourselves<sup>67</sup>.

## 7. CONCLUSIONS

Melon's work is today known only by a few specialists and it is often considered a curiosity of the early stages of the economic discipline<sup>68</sup>. In particular, his image of public debt as the right hand lending to the left one is sometime recalled as a *boutade*. A deeper analysis of the *Essai* makes possible a better understanding of Melon's thought and to see him as a forerunner. We may say that he anticipated the keynesian belief in public intervention in the economy via deficit financing. However, the seeds of Melon's views on public debt gave vent to intense debates from the 18th century onward. Only seldom the merits (or demerits) for initiating the discussion are today recognized to Melon<sup>69</sup>. I only hope that this paper will shed some light on this "*uomo d'ingegno grandissimo*"<sup>70</sup>.

---

<sup>67</sup> Eggerston and Krugman (2012).

<sup>68</sup> Among the scholars who know well Melon's book, see Theocarakis (2014).

<sup>69</sup> As an exception, see Musgrave (1985).

<sup>70</sup> See Section 3 and footnote 28.

## REFERENCES

- Aspromourgos, T. (2014), "Keynes, Lerner and the Question of Public Debt", *History of Political Economy*, 46(3), 409-433.
- Balassone, F., D. Franco and S. Zotteri (2004), "Public Debt: A Survey of Policy Issues", Available at SSRN: <<https://ssrn.com/abstract=2040728>> or <<http://dx.doi.org/10.2139/ssrn>>.
- Balletta, F. (2001), "Monete, banche e mercato finanziario nel pensiero degli economisti napoletani del settecento", *Rivista di storia finanziaria*, pp. 7-42.
- Barro, R.J. (1974), "Are Government Bonds Net Wealth?", *Journal of Political Economy*, 82(6), 1095-1117.
- Berkeley, G. (1737), *The Querist*.
- Blaug, M. (1997), *Economic Theory in Retrospect*, Cambridge University Press, Fifth Edition.
- Boyer-Xambeu, M.T. (1987), "John Law, précurseur de Keynes et théoricien du circuit?", *Cahiers d'économie politique, Conceptions de la monnaie: un Enjou théorique*, 13, 105-129.
- Broggia, C.A. (1743), *Trattato de' tributi, delle monete, e del governo politico della sanità*, Napoli.
- Buchanan, J.M. (1958), *Public Principles of Public Debt: A Defense and Restatement*, Richard D. Irwin, Inc.: Homewood, IL.
- Carnino, C. (2014), "Dal dibattito sul lusso alla pubblicità del benessere. La stampa periodica e la percezione delle trasformazioni nell'Italia del secondo settecento", *Società e storia*, 144, 249-279.
- Cesarano, F. (1990), "Law and Galiani on Money and Monetary Systems", *History of Political Economy*, 22(2), 321-340.
- De Viti De Marco, A. (1893), "La pressione tributaria dell'imposta e del prestito", *Giornale degli economisti*, VI, 216-231.
- De Viti De Marco, A. (1928), *Principi dell'economia finanziaria*, Einaudi: Torino.
- Di Majo, A. (2005) "Giovanni Montemartini nella teoria e nella pratica dell'economia pubblica", *Rivista di diritto finanziario e scienza delle finanze*, 64(1), 30-53.
- Dome, T. (2004), *Political Economy of Public Finance in Britain, 1767-1873*, Routledge: London and New York.
- Domar, E.D. (1944), "The 'Burden of the Debt' and the National Income", *The American Economic Review*, 34(4), 798-827.
- Domar, E.D. (1945), *Public Debt and National Income*, in: "Public Finance and Full

- Employment”, Postwar Economic Studies No. 3 (December), pp. 53-68, Board of Governors of the Federal Reserve System, Washington, DC.
- Dutot, N. (1738), *Reflections politiques sur les finances et le commerce*, Chez les freres Vaillant & Nicholas Prevost: La Haye.
- Eggertsson, G.B. and P. Krugman (2012), “Debt, Deleveraging, and the Liquidity Trap: A Fisher-Minsky-Koo Approach”, *The Quarterly Journal of Economics*, 127(3), 1469-1513.
- Fausto, D. (2012), *Finanza pubblica*, in: “Il contributo italiano alla storia del Pensiero: Economia”, Enciclopedia Treccani.
- Ferguson, J.M. (Ed.) (1964), *Public Debt and Future Generations*, University of North Carolina Press.
- Forbonnais (Veron de) F. (1753), *Commerce*, in: D. Diderot, J.B. Le Rond d’Alembert “*Encyclopédie*”.
- Galiani, F. (1750), *Della Moneta*, Published by Feltrinelli Editore in 1963.
- Graziani, A. (2004), “Moneta, banche e reddito nel pensiero di Carlo Antonio Broggia”, *Rivista italiana degli economisti*, 2(August), 291-302.
- Hume, D. (1741), *Essay, Moral, Political and Literary*, Wallachia Publishers: New York City, NY.
- Kayaalp, O. (1989), *Early Italian Contributions to the Theory of Public Finance. Pantaleoni, De Viti De Marco and Mazzola*, in: D. A. Walker (Ed.), “Perspectives of the History of Economic Thought”, Vol. 1, pp. 155-166, Edward Elgar Publishing.
- Keynes, J.M. (1936), *The General Theory of Employment, Interest and Money*, Macmillan: London.
- Lerner, A.P. (1943), “Functional Finance and the Federal Debt”, *Social Research*, 10(1), 38-51.
- Lerner, A.P. (1948), *The Burden of the National Debt*, in: L.A. Meltzer *et al.* (Eds), “Income, Employment and Public Policy, Essays in Honour of Alvin Hanson”, W.W. Norton: New York, pp. 255-275.
- Lerner, A.P. (1959) “Book Review: Public Principles of Public Debt: A Defense and Restatement. By James M. Buchanan”, *Journal of Political Economy*, 67(2), 203-206.
- Luzzatto, G. (1963), *Il debito pubblico della Repubblica di Venezia: dagli ultimi decenni del XII secolo alla fine del XV*, Volume 4, Istituto editoriale cisalpino.
- Matarazzo, P. (2009), *Senza ineguaglianze e senza lusso. Mercato e virtù nella scuola genovesiana; il caso Longano*, in: A. Alimento (Ed.), “Modelli d’oltre confine. Prospettive economiche e sociali negli antichi stati italiani”, Edizioni di storia e letteratura: Roma.

- Melon, J-F. (1734), *Essai politique sur le commerce*, F. Changuion: Amsterdam (Second Edition, 1736).
- Mirabeau (Riqueti de), V. (1763), *Philosophie rurale, ou Economie Générale et Politique De l'Agriculture, Reduite à l'ordre immuable des Loix physiques & morales, qui assurent la prospérité des Empires*, Les Libraires Associés: Amsterdam.
- Modigliani, F. (1961), "Long-Run Implications of Alternative Fiscal Policies and the Burden of the National Debt, *Economic Journal*, 71(284), 730-755.
- Montesquieu (de Secondat), C-L. (1748), *De l'esprit des lois*, Genève.
- Muratori, L.A. (1749), *Della pubblica felicità, oggetto de' buoni principi*.
- Murphy, A.E. (2007), *John Law économiste et homme d'État*, P. Lang: Bruxelles.
- Musgrave, R.A. (1985), *A Brief History of Fiscal Doctrine*, in: A.J. Auerbach, M. Feldstein (Eds), "Handbook of Public Economics", Elsevier: North Holland.
- Pantaleoni, M. (1891), "Imposta e debito, in riguardo alla loro pressione", *Giornale degli economisti*, 3(2), 40-50.
- Pedone, A. (2012), "Alle origini del persistente alto livello del debito pubblico italiano", Intervento alla Riunione Intermedia SIEP 2012, *La gestione di elevati debiti sovrani in contesti di crisi finanziaria: quali insegnamenti dalla storia*, Banca d'Italia.
- Perrotta, C. (1997), "The Preclassical Theory of Development: Increased Consumption Raises Productivity", *History of Political Economy*, 29(2), 295-326.
- Pigou, A.C. (1951), *A Study of Public Finance*, (3rd revised edition), Macmillan: London.
- Rebière, A. (1896), *Jean-François Melon l'économiste*, Crauffon: Tulle.
- Reinert, E.S. and S. Reinart (2005), *Mercantilism and Economic Development: Schumpeterian Dynamics, Institutional Building, and International Benchmarking*, in: K.S. Jomo, E.S. Reinert (Eds), "The Origins of Development Economics", Tulika Books: New Delhi, pp. 1-23.
- Ricardo, D. (1817), *On the Principles of Political Economy and Taxation*, John Murray: London.
- Ricca Salerno, G. (1879), *Teoria generale dei prestiti pubblici*, U. Hoepli: Milano.
- Say, J-B. (1803), *Traité d'économie politique*, Imprimerie de Capelet: Paris.
- Schmoller, G. (1896), "The Mercantile System and its Historical Significance", English version of a chapter from *Studien über die Wirthschaftliche Politik Friedrichs des Grossen* (1884), The Macmillan Co.: London.
- Schumpeter, J.A. (1954), *History of Economic Analysis*, Psychology Press: London.

- Smith, A. (1776), *An Inquiry into the Nature and Causes of the Wealth of Nations*, An Electronic Classic Series Publication, 2005, Jim Maris Editor.
- Steuart, J. (1767), *An Inquiry into the Principles of Political Economy: Being an Essay on the Science of Domestic Policy in Free Nations in which are Particularly Considered Population, Agriculture, Trade, Industry, Money, Coin, Interest, Circulation, Banks, Exchange, Public Credit, and Taxes* (Vol. 2), A. Millar and T. Cadell: London.
- Theocarakis, N.J. (2014), “The History of the Political Economy of Public Debt”, 4<sup>th</sup> ESHET Latin American Conference, Belo Horizonte, Brazil – 19-21 November.
- Tobin, J. (1965), “The Burden of the Public Debt: A Review Article”, *The Journal of Finance*, 20(4), 679-682.
- Voltaire (F-M. Arouet) (1738), “Observations sur Jean Lass, Melon et Dutot sur le commerce, le luxe, les monnaies et les impots”, in: *Oeuvres complètes de Voltaire*, Paris, Tome V (edition 1869).
- Ward, I.D.S. (1959), “George Berkeley: Precursor of Keynes or Moral Economist on Underdevelopment?”, *The Journal of Political Economy*, 67(1), 31-40.