

The Economics of James Steuart

Edited by
Ramón Tortajada

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THE ECONOMICS OF JAMES STEUART

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PREFACE

The First International Conference on Sir James Steuart was held in the Museum of the French Revolution at the Château de Vizille. As pointed out by a number of participants it was by no means a paradox that one of the two great Scottish economists of the late eighteenth century should be thus acknowledged by an International Conference organized on the Continent. Indeed Steuart's biography, as well as the response to his works during the French Revolution, argue for it.

It was during his Foreign Tour that he made the political commitments which determined his later life, especially his exile. And it was during his exile, first at Angoulême and later at Tübingen, that he wrote *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, Coin, Interest, Circulation, Banks, Exchange, Public credit, and Taxes*—in short, a complete treatise on 'economic science', revised and published after his return to Scotland.

The *Principles* were translated and published in French during the first phase of the Revolution. This edition, the only one to date, addressed a twofold concern. First, it acted as a theoretical response to the then prevalent economic theory in order to lay the foundations for a new tax system and prepare the ground for a new conception of economic relations. Second, this publication was a part of—and contributed to—the numerous disputes, discussions and debates towards the creation of a new currency, which differed from those handed down by the monarchy. The conclusion is well known. It led to a currency backed by what seemed to be the safest possible guarantee, namely land.

The originality of Steuart's economic writings cannot be grasped without referring to his biography. And indeed, in his Preface to the *Principles*, he mentions his long absence from the United Kingdom, when he lived on the Continent, in France and in Germany. This prolonged stay, in addition to the Foreign Tour, which every British gentleman was expected to undertake, was far from being voluntary; yet Steuart fully benefited from it. His stay on the Continent helped him to develop an analysis of economic relations which was meant to be more general than one concerning a particular nation. Traces

of this influence can be found in the illustrations of the *Principles*, but also in the criticisms addressed to him. This is the object of Andrew Skinners contribution, which opens the present volume. It deals both with the course which Steuart adopted and with the strength and duration of his commitment to the Jacobite cause. This point has often been mentioned, though not enlarged upon, by various biographers. Here it is treated more comprehensively.

The interplay of influences

Among the influences which contributed to forming his conceptions about economic relations with regard to money, the best-known author was John Law. Steuart devoted long passages to him when he studied the credit system. Another source very often referred to by various commentators as having influenced Steuart's economic works is the *Essay on the Nature of Trade in General* by Richard Cantillon. On the basis of a careful analysis of texts, in Chapter 1, Peter Groenewegen shows that this relationship is not as evident as a first perusal may make us believe. The interplay of influences is always more subterranean than it seems. Steuart does not appear to have had direct access to Cantillon's work, but had merely read the commentaries and exegeses which the *Essay* had inspired, a fact which does not reflect a failure in Steuart's economic analysis, but rather the complexity of the network of influences within which he found himself.

In Chapter 2, Manuela Albertone's emphasizes the influence of Steuart's economic works at the time of the monetary debates during the French Revolution. Although his works came to be known very late, the *Principles* having been translated into French as late as 1789 and 1790, they exercised a profound influence during the first stage of the Revolution. In particular, they inspired Clavière to establish the foundations for a monetary system secured by land: the system of assignats.

Steuart's influence was also felt in other areas, namely on the ideas of Hegel and Marx. It is shown by Rosenkranz that Hegel had carefully read Steuart's *Principles*, but that his reading notes had disappeared. Dominique Caboret analyses the structure of Hegel's commercial system and shows how the latter shared Steuart's point of view in Chapter 3.

Henri Denis, in Chapter 4, takes up and analyses the discrepancy between Marx and Steuart, both with regard to the conception of money and to the question of capitalists' profit. In both cases, Denis shows how Marx's departure from the positions upheld by Steuart is not as solidly established as he thought, and that a return to Steuart's conceptions might have led him to new ways of research.

The interplay of influences is the object of an extensive research by Paul Chamley. He tries to show how both Hegel and Keynes, in his *General Theory*, owed a number of their conceptions to Steuart. Ragip Ege (Chapter 5) devotes

himself to unravelling the method used by Paul Chamley by trying to ‘listen to the silences’ of these authors, or show their ‘secret architecture’, to use a painter’s term. The conclusion is that if the correspondences between Stuart and Hegel make sense, those between Stuart and Keynes do not.

In Chapter 6, Noboru Kobayashi puts the accent on a point of method which has become so familiar to us that it seems by now self-evident, namely Stuart’s effort to differentiate between an ethical approach to social relations and an analysis of economic relations. This is the result of a complex process. On the one hand, Stuart aimed at establishing the foundations for a new field of investigation, which was to be explicitly distinct from other forms of inquiry on society, and on the other hand, it was Stuart’s personal attitude not to feel much admiration for the values of his own generation.

The key to the difference between Stuart’s views and those of other economists, whom Robert Urquhart describes in Chapter 7 as orthodox, is the differentiation that Stuart’s arguments were based on Aristotelian logic while those of other economists followed the Platonic school. Thus Urquhart also focuses on an aspect of ‘method’, though in a way which is quite different from Kobayashi’s in the previous chapter. He does not provide a discussion of James Stuart’s methodology, but an attempt to show how a contemporary economic approach that would adopt Stuart’s methodology would be in a better position to come up with relevant economic proposals concerning both economic policy and theory. This is no longer a discussion of established influence, but a demand for future influence.

Economic issues

Stuart’s economic writings as a whole are intended to lead to policy measures. The contributions which aim at carrying out new analyses form the second part of this volume: *Markets, money and macroeconomics*. The *Principles* are not meant to devise a process in which the interests of private agents are spontaneously compatible, as implied in the fable of ‘the invisible hand’, as long as the State does not interfere too much in economic relations. They are to show under what conditions the *statesman* can and should see to it that individuals motivated by their personal interests are made to act in mutually compatible ways. Smith’s impartial State is transformed into an economically efficient State.

While Adam Smith’s Foreign Tour of Europe as private tutor to the Duke of Buccleuch appeared to have confirmed his liberal approach, we learn from Andrew Skinner’s chapter (Chapter 8) that Stuart stressed the importance of an active presence of the statesman in economic matters from his very first travelling accounts. Later on, questions about the importance, form and nature of State intervention in economic relations were present throughout his *Principles*, as well as in his other works. This is a patently obvious fact. Whether he was dealing with the development and planning of

a given territory, or describing cycles of economic development in general, Stuart always asserted that political authorities had to supervise the course of affairs so that they would be run properly.

The economic policies suggested in the *Principles* are illustrated in the proposals for a policy regarding the price of a basic commodity such as grain in the late eighteenth century. Laurent Augier and Christine Théré (Chapter 9) show in what way Stuart's proposals for regulating this particular market, with its abrupt fluctuations in price, were not limited to a 'granary' policy, but aimed at the regulation of exchange ratios linked to a banking system.

The population and its full employment are the main issue in Stuart's ideas about economic policy. Population size does not have its limits set by a given quantity of natural resources, but by its capacity to develop exchange relations between the agricultural sector and the manufacturing sector. In this context, the statesman has to intervene so that the proportions between the two sectors are maintained. In this situation, Jean-Jacques Gislain shows, in Chapter 10, that the landowners do not play the decisive role attributed to them by Cantillon and the Physiocrats. Instead, the main economic role in society is played by consumers. As a result, the significant economic concept is that of 'effectual demand', that is purchasing power. Thus both Stuart and Law considered the monetary dimension as a crucial factor in the relationship between economy and population.

The monetary question plays a central part in the *Principles*. It remains to be seen what the origin of this category was in Stuart's work. This task is undertaken by Maria Luisa Pesante in Chapter 11. Money has to be understood as a moral, theoretical and political question. The complex nature of Stuart's theory about money is connected with his conception of the power of the sovereign. Indeed, according to Maria Luisa Pesante, Stuart affirms, using the same argument as the one developed by Harrington, that the system of paper money is only compatible with advanced forms of society, those that are rich and free, and governed by a system of modern liberties like the Scottish society. On the other hand, in those countries where the sovereign lacks the characteristics of a modern statesman, as is the case in the Bengal Company or the German principalities, the statesman lacks the capacity to legislate the issuing of currency.

In 1771, soon after the publication of the *Principles*, the East India Company commissioned Stuart to prepare a study of the monetary system of Bengal. This was a sign of how highly his ideas were regarded among British merchants. The point was to seek a remedy against the 'flight' of Bengali money and to introduce a monetary circulation guaranteed by credits between merchants. Stuart's long and detailed answer is analysed by Walter Eltis in Chapter 12. He shows how Stuart goes back to the main conclusions of his *Principles* and adapts them to the Bengali context. Stuart's proposals for monetary reform, which according to Eltis follow in the tradition of

John Locke, aimed at determining a coin (the current rupee) with a specific fineness and weight to reduce the costs of transaction and stimulate exchange. However, as emphasized by Eltis, Steuart found that, to surmount the monetary difficulties of Bengal, profound changes had to be made in the structures of the production, ownership and government of Bengal. It was within the framework of this policy for the development of industry and trade that Steuart suggested that a credit bank be created to provide the 'industrious inhabitants' with the financing required for their activity.

Sir James Steuart, like Adam Smith after him, devoted particular attention to the structure of a banking system and the management of money. According to Sylvie Diatkine and Michel Rosier, in Chapter 13, there are great similarities between the views of these two authors as regards monetary and banking matters. First of all, they shared the conviction that a banking system would effectively contribute to economic growth. According to Steuart, this was due to the growth of the money supply because of the presence of bank money. According to Smith, the generalization of paper money would lead to liberating tied-up capital, which would add to the wealth of the nation. Moreover, both of them considered that the existing systems of payment were viable, but that they required state regulation both as regards the relations between the banks and their users, and as regards the fixing of interest rates. Yet, although both authors thought that asymmetric information would lead to State intervention, this asymmetry was not understood in the same manner. Steuart essentially emphasized the risks run by the depositors, while Smith insisted on the risks and hazards run by the banks. For the former, the objective was to protect users by guaranteeing their deposits, while for the latter banks had to be protected against prodigals and other 'projectors'.

For Steuart, fixing the interest rate was a monetary matter. The interest rate does not adjust supply and demand of savings but, as suggested by Montesquieu, it regulates the supply and demand of money. This rate, which Steuart calls the price of money, is determined on the market like any other price. Yet the specificities of money make themselves felt throughout the process of determination, and that is the subject of Ramón Tortajada's chapter (Chapter 14). It shows first of all that this market, like all other markets, requires an external regulation to function properly (here despite their different lines of argument, we find that Steuart and Smith reach the same conclusion about the presence of the State in the matter of interest rates). Second, although Steuart had fully incorporated the notion of capital in advance and profit, he therefore lacked the concept of a rate of profit, thereby being unable to link it to the rate of interest.

Steuart's economic analysis with its stress on the monetary question is described by Faruk Ülgen, in Chapter 15, as foreshadowing contemporary works which, having broken with tradition, consider that an approach in real terms cannot account for the main economic relations of our societies.

PREFACE

To show this, two aspects of the *Principles* are singled out. The first concerns the nature of money. Steuart rejected all material foundations, just like contemporary authors, and established the foundations of money on the unit of account. The second aspect concerns the banking and monetary system, which consists of an articulation of credits and debts. With all the difference due to the developments of the subject, this calls to mind the workings of the contemporary French school of the circuit, which argues that the continuity of monetary payments ensures the continuity of actual exchanges.

There have been few attempts to take up Steuart's entire construction and put it into the contemporary vocabulary of economic theory. The first known attempt seems to have been Akhtar's in 1960. More than thirty years later, Hong-Seok Yang (Chapter 16) takes up the challenge and tries to account for the specificity of Steuart's approach, in which money appears on a level with the determination of the prices of goods, on the basis of a macroeconomic model. In *Yang's problematique*, the interest rate of money, determined endogenously within the system, concludes the equations as a whole, thus securing the status of the central variable of the system.

This book presents the main contributions to the first international colloquium which had the economic works of James Steuart as its only theme. It cannot be closed without a bibliography, the most extensive one available today, both on the works of Steuart himself and on the works of those who have studied him. The works in English and French were supplied by Ianik Marcil. The bibliography was completed by Kunihiro Watanabe, who contributed the most important publications from the very large body of Japanese literature on the works of James Steuart.

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The international conference, *James Stewart in 1995*, was held at the Museum of the French Revolution at the Château de Vizille on 14, 15 and 16 September 1995.

The Scientific Committee consisted of: Paulette Taieb of the University of Paris I, Arnaud Berthoud of the University of Lille I, Henri Denis of the University of Paris I, Daniel Diatkine of the University of Evry-Val d'Essonne, Ragip Ege of the University of Strasbourg I, Roger Frydman of the University of Paris X, André Lapidus of the University of Paris I, Jean Rosio of the University of Aix-Marseille II, Andrew S. Skinner of the University of Glasgow, and Ramón Tortajada of the University of Grenoble II. The quality of the contributions presented at this conference, as well as the way in which it was organized and the debates that were held in it, owe a great deal to the work of members of the committee. The quality of the daily organization of the programme was entirely due to the efforts of the secretary of the conference, Fanny Titre. The general secretariat of the conference was assumed by the Centre d'Études de la Pensée Économique [Center of Studies of Economic Thought].

The conference received support and financial assistance from: the Charles Gide Association for the Study of Economic Thought, the CNRS Research Group: History of Economic Thought and Methodology, the Louis Pasteur University, University of Strasbourg I, the University of Paris X-Nanterre, the University of Pierre Mendès France—Grenoble II, the University of Paris I—Panthéon-Sorbonne, the University of Science and Technologies of Lille I, the University of Evry-Val d'Essonne; the GREQAM CNRS-EHESS—University of Aix-Marseille II and III; as well as the Ministry of National Education, the Ministry of Foreign Affairs, the City of Grenoble and the General Council of Isère. And last, but not least, the conference enjoyed the unfailing support of the administration of the Faculty of Economic Sciences of the Pierre Mendès France University of Grenoble.

The contributions presented at the conference were too numerous for all of them to be published in one book. Since a comparison of their respective qualities did not lead to an obvious choice, a selection had to be made. The selection committee consisted of: Henri Denis, Daniel Diatkine, Ragip Ege,

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These contributions are published simultaneously in English and in French. This volume is the English version. The French, *Sir James Steuart et l'économie politique*, is a special issue of the review *Economies et Sociétés*, série *Economia*, 11–12, 1998. Translations of the articles had to be made both from English into French and from French into English. This two-way translation was the responsibility of Azizeh Azodi, who carried out the French-to-English translations herself.

INTRODUCTION

Sir James Steuart and the Jacobite connection*

Andrew S. Skinner

Introduction

Few periods are more interesting than the eighteenth century in Scotland. In terms of the history of events and ideas, the period witnessed Union between England and Scotland, and at least three unsuccessful rebellions, but above all a pattern of growth and change which was matched by a corresponding interest in these phenomena. The ruling feature of the work done by Adam Smith, Adam Ferguson and John Millar was the interest shown not only in events but in change; not only in the structure of society as it was presented to their eyes but also in its origins. The approach was thoroughly Aristotelian and resulted in a type of historical investigation which was described by Dugald Stewart as ‘theoretical’ and ‘conjectural’, and which was to become celebrated under the title of ‘philosophical history’. Whatever the merits of the approach it is possible to say that the beginnings of modern social science are to be found in the eighteenth century—in the work of Quesnay and Turgot in France, Adam Smith, William Robertson and John Millar in Scotland. Among the contributors to Scotland’s intellectual dominance at this time, we must number Sir James Steuart (1713–80) whose *Principles*

* The material in this section is in part drawn from ‘Sir James Steuart: political economy and the Jacobite connection’ as delivered at the Conference *James Steuart in 1995* in Vizille. The text was subsequently modified and published in the Discussion Papers series in the Department of Economics (1995) of the University of Glasgow. The present paper is an abridgement of those sections of the biographical introduction which refer to the ‘Jacobite connection’ as it appears in the new edition of the *Principles* published by Pickering and Chatto.

Quotations from the Stuart Papers at Windsor (hence cited as *WP*) are cited with the gracious permission of Her Majesty the Queen. Excerpts from Lord Eicho’s *Journal*, translated by Alice Wemyss, were made available to me by John Gibson and are cited with the kind permission of Mr Michael Wemyss. I am deeply indebted to John Gibson for invaluable advice and encouragement. I am also indebted to Edinburgh University Library (EUL) for permission to quote from its collections.

(1767) constitutes one of the first systematic treatments of economics as a distinct area of study. Although the period and the subject are properly dominated by the name of Adam Smith, Steuart anticipated the more lucid and influential *Wealth of Nations* not only in terms of his obvious interest in the origins of the economic institutions which faced him but also in his self-conscious attempt to establish political economy as a distinct branch of social science.

But if the objectives of the two men were similar, they could hardly have differed more in terms of background and experience. Whereas Smith was an academic and ‘an untitled gentleman’, Steuart was a diplomat and an aristocrat; where Smith and most of his friends regarded the ’45 as a ‘ridiculous project’ Steuart was considered of sufficient importance to justify his exile after 1746.

At first sight there seems little to explain Steuart’s allegiance to the Jacobite cause. Believing as he did in the thesis that all principles, political, moral and economic, are to be judged only against the particular conditions of particular periods, there was nothing in the absolutist pretensions of the Stuarts which could have been intellectually attractive. But these perspectives may have been the result of mature reflection and not unrelated to Steuart’s extensive knowledge of the Continent—an experience which was the result of some deliberate, if rash, acts of choice, prompted by an ambition which, according to his aunt, Mrs Elizabeth Mure of Caldwell, ‘must ever be considered as a strong feature of his character’ (Chamley 1965:166). As Steuart once put it, in a revealing passage, ‘To be truly happy we must have power, and have other people to depend on us’ (Steuart 1966:309; 1998:II 38).

Antecedents

James Steuart (1608–81) laid the foundations of the family fortune. A successful merchant, he married Anna Hope ‘descended from creditable substantial burgh families’ and later became Lord Provost of Edinburgh. A hater of all things ‘popish’ the Provost, then Town Commandant, prevented the King’s retinue from entering the Parliament House in 1633 and later presided at the execution of Montrose. But the Provost was firmly attached to principles which Montrose would have recognized—a monarchy which would respect the religious liberties of the subject—and once the late monarch’s son had accepted the Covenant, he took steps to invite Charles II to come to Scotland. The decision taken, the Provost did not waver and even after the loss of the battle of Worcester consistently refused to take office under the Protectorate. On Cromwell’s death he became Provost once again but his loyalty to the royal cause was recognized with two terms of imprisonment, the last on an obscure charge of treason which required £1,000 to dissipate.

The same zeal for religious liberty appeared in his second son, also James

(1635–1713), who published in 1669 the first of many weighty tracts, the *Ius Populi Vindicatum*. This work had the distinction of being banned by the Privy Council and in 1671, James thought it prudent to retire to France where he confirmed his reputation by writing *An Account of Scotland's Grievances by Reason of the Duke of Lauderdale's Ministrie* (1675). Following this publication, a warrant was issued for his arrest and, although the charge was dropped in 1679, James was obliged to flee to Holland two years later, where he joined his elder brother, Thomas. Yet despite his persecutions the same strain of sympathy for the Stuarts which had appeared in the father, appeared in James the son, a sympathy which sat uneasily beside his religious attitudes and attachment to the Prince of Orange.

However, in 1693 James was appointed Lord Advocate and two years later became a baronet. In the more settled times following the revolution his life was apparently uneventful and at his death in 1713 the Lord Advocate was genuinely if extravagantly mourned in both English and Latin verse.

By Agnes Traill, Sir James had two daughters and a son who was to carry on the traditions of his father. Sir James Steuart (1681–1727) married Anne Dairymple, daughter of Hew Dalrymple, Lord President of the Court of Session, and later became Solicitor General and MP in the Union Parliament.¹ The Solicitor General had five children of whom James, the economist, born on 10 October 1713, was the only son. With two estates, at Coltness and Good trees, the family had apparently emerged from the conflicts and chaos of the seventeenth century with office, fortune and a settled political allegiance.²

The Foreign Tour

Young James passed his early years at Goodtrees (known locally as ‘Gutters’) and later attended the Parish School at North Berwick. He entered Edinburgh University in 1724 and subsequently studied Scots Law under Alexander Bayne and Constitutional History with Charles Mackie.³

Sir James made the expected progression from the university, and under the guidance of Hercules Lindesay passed the bar examinations in 1735. Nothing seemed to stand in the way of a successful and even brilliant career, whose start was merely postponed by the last phase of a gentleman's education: the Foreign Tour (1735–40).⁴ In company with a close friend and fellow advocate, Steuart first travelled to Holland with the intention of pursuing further study at the universities of Leyden and Utrecht. It is likely that Steuart and his constant companion, James Carnegy of Boysack, then moved on to France and certain that they visited Avignon. Still a Papal territory, Avignon was at this time a refuge for those who had been ‘out’ in the Rebellion of 1715 and consequently something of a Jacobite centre. Alice Wemyss has speculated that it was here that Steuart met the exiled Duke of Ormonde, an ardent supporter of the Old Pretender, who encouraged him

to visit Spain with a view to contacting the Earl Marischal (Wemyss 1988:92). It was in Madrid that Steuart finally made the acquaintance of the Earl Marischal 'who (as a fellow Scot) realised what an acquisition this bright young man would be to the party, all the more in that he belonged to a *milieu* normally hostile to the House of Stewart' (Wemyss 1988:92).

The meetings with Ormonde in Avignon, and the Earl Marischal in Spain, may well have determined him to travel on to Rome, and to have settled the complexion of his meetings there. Steuart was certainly in Rome in 1739, when his portrait was painted, and there can be little doubt that he indulged his genuine taste for classical antiquities here. But the visit was to prove fateful in that he established the contacts which Ormonde and the Earl Marischal had hoped for. The atmosphere, from a Jacobite point of view, must have been electric. In Rome, as Sir Walter Scott put it, 'all manner of snares were spread by the Pretender and his sons' (Scott 1814: chap. 5). As John Ramsay of Ochtertyre, not always a sympathetic critic, was to remark of Sir James: It was...no easy matter for a young, inexperienced man to withstand the arguments and blandishments of the Earl Marischal and his associates, who, with the credulity of oracles, seemed confident that a revolution was at hand' (Allardyce 1888:i, 361). In the event, Sir James became a member of a prominent Jacobite Club, 'The Young Gentlemen Travellers in Rome', and was described by one sceptical contemporary as 'the prettiest, most agreeable little Cur that ever liv'd if he were not such a Jacobite' (Chamley 1965:37).

We have as yet no firm evidence as to Steuart's meetings in Rome, but it is known that he wrote to Secretary Edgar from Lyons on 28 December 1739, en route home, and that the latter replied on 14 January acknowledging Steuart's compliments to the 'King', 'who was pleased to receive with pleasure this new testimony of your sentiments towards him. He commands me to tell you that he is very sensible of them, and to make you his best compliments'.⁵ Edgar added that Steuart's letter had been well received and that their Highnesses wished to assure him of 'their retaining a very particular remembrance of you'.

On 3 June 1740, Steuart acknowledged Edgar's letter indicating that he was leaving Lyons for Paris in ten days time and that he proposed to stay there until the end of the month.

I am now at last going to old Scotland, where I hope it may be in my power to be of some service to the good Cause, and I hope when you lay my humble duty at his M...y's feet, you will not omit to assure him, in my name, that my firm intention is to devote myself to his Service, and to omit nothing that in my low sphere can promote his interest, or increase the number of his friends.

He continued:

I hope, Signor Mio, that if I get into Parliament, this may be more in my power, and in that case I shall possibly pay you a visit if the number of our evil days be so long of being accomplished, which God forbid.⁶

On a more practical note, Steuart indicated that he would send Edgar a cypher (later confirmed as '1778', Blaikie 1975:43) in the hope of future correspondence.

The Jacobite Cause

It is clear that Steuart's interest in the Cause dates from his sojourn in Rome. It is also evident that Steuart had been active almost from the date of his return to Scotland in 1740. His commitment to the Cause was confirmed by his future brother-in-law, Lord Elcho, whom he met in Lyons in 1739 and with whom he formed a life-long friendship. It was Lord Elcho who introduced Steuart to his sister, Lady Frances Wemyss. Elcho recorded that Steuart asked his permission to 'pay court to my sister' and that he took Sir James to meet her in Dunrobin where Frances was staying with her aunt, the Countess of Sutherland. The couple were married in 1743.

There seems little doubt about Steuart's zeal. Charteris, Elcho's biographer, writing with the authority of Elcho's *Journal* described Steuart as 'one of the most extreme and ardent Jacobites of the time' (Charteris 1907:38). Elcho himself recorded, when advised by Lord Sinclair, a neighbour in the country of Fife, that he should abandon his links with the party, that it was Steuart's zeal which 'prevented me from following this "course"' (*Journal*: 23). Elcho also noted that 'The Chevalier was one of the most zealous and the most extreme of all Scottish Jacobites, and as he was very amiable, well travelled and extremely intelligent he converted more people to the Stuart Cause than anyone else (*ibid.*). Secretary Murray, writing to Edgar on 5 September 1743 referred to the fact that Steuart was 'deservedly liked by all his acquaintance' (Blaikie 1975:43) and noted elsewhere that he was one 'of the most considerable of the King's friends, with whom I had frequent meetings' (Murray 1898:113).

With the promise of substantial help from France, the affair must have seemed promising, and in January 1744 Prince Charles arrived in Paris where he met Lord Elcho and the Earl Marischal. An invasion fleet was gathering. Steuart knew of all this from Elcho, who visited him in April, just as he knew of the Prince's intention to land in Scotland with or without assistance, a matter in respect of which he was enjoined to silence. Sir James would certainly be a member of Elcho's Buck Club which was founded in 1744.

The summer of 1745 found Sir James in Coltness, in the county of Lanark, but he returned to the capital, ostensibly to secure medical attention for his wife. In the meantime Prince Charles had sailed on 4 July and

certain knowledge of his landing was received in Edinburgh on 2 August. For a time events moved slowly, but on 16 September the Rebel Army was two miles from the city, where the bustle and uproar which Carlyle recalls can readily be imagined.⁷ Sir James was well placed to receive information. He moved into lodgings with Traill the bookseller, in the Parliament Close⁸ and was thus near his cousin, Archibald, the Lord Provost.⁹

The event which must have seemed so distant in Rome was now at hand and on 17 September the advance guard of the Rebel Army was in the City.

Sir James made no overt move and it was possibly not until after the battle of Prestonpans had been won on 21 September that he declared himself. The news of the battle came dramatically. While Steuart was break-fasting with Oliphant of Gask they heard four of Colonel Gardiner's defeated dragoons clattering up the High Street in a futile attempt to find safety in the Castle.¹⁰

In company with Buchan (Lord Cardross), who had married his sister, Agnes, Steuart went down to Holyrood Palace, where the two men arrived apparently under arrest. Blaikie, quoting the authority of Sir Henry Steuart of Allanton, suggests that while Steuart was disposed to join the Prince he did not wish to appear 'quite a free agent'. The arrest, reportedly suggested by Lord Elcho, was unacceptable to the Prince who resolved to receive the two men only as 'willing partisans to his cause'. Buchan withdrew, but 'Sir James, too much offended with the government to retrace his steps, remained to see the Prince upon the terms prescribed' (Blaikie 1975:424-5). The Prince was not alone in feeling some sense of aggravation. As the Woodhouselee MS records: 'It is an insult upon common sense, Sir James his practice, he has been an oppen tool' (Chambers 1907:49).

The die was cast, and henceforth Steuart was busy. As Elizabeth Mure remarked 'he was consulted in everything, he wrote the Manifesto, and several little things in the public papers' (Chamley 1965:116). The reference to the Manifesto is interesting given the moderate content of the second version. The Manifesto confirmed inter-alia that:

We yrfore hereby in his Maj's name declare, That his Sole intention is, To reinstate all his Subjects, in the full enjoyment of their religion, laws & liberties; & that our present attempt is not undertaken to enslave a free people, but to redress and remove the encroachments made upon them. In consequence of the rectitude of our Royal father's intentions, we must further declare his Sentiments with respect to the National Debt. That it has been contracted under an unlawful Govt, no body can disown' no more than that it is now a most heavy load upon the Nation.... With respect to the pretended Union of the two Nations, the King cannot possibly ratify it. Since he has had repeated remonstrances agt it from each kingdom.¹¹

The reader will note the reference to the Union.

Ambassador to France

Towards the end of October, and just before the march to Derby, it was decided to send an ambassador to the French Court to replace George Kelly, one of the celebrated 'seven men of Moidart'. Elcho recorded that

It was about this time that he (the Prince) suggested that I should go to Paris and attend to his interests at the Court of France. I having refused, he sent my brother in law, the Chevalier Steuart who was greatly appreciated at Versailles. The Prince gave him a thousand gold *louis* for his expenses.

(*Journal*: 38)

Steuart left with the approval of Lochiel and of Lord George Murray who considered him to be a 'Very proper person' (Tomasson 1958:63). Steuart carried with him a letter from Charles to his brother, dated 25 October 1745, seeking assistance (Bongie 1986:124). On the 31st of the month he was at Perth, whence he wrote to Lady Frances announcing the arrival of a ship at Montrose and expressed the hope that Lord John Drummond would soon be arriving with 10,000 troops. He concluded: 'when after this you see a mark like this at any one of my letters you may hold them to the fire, and now my dearest life a Dieu' (Nicholas 1956:57–8). The reference may suggest a concealed message, as distinct from recommending destruction of the missive; a common practice at the time.

Steuart departed from Stonehaven under conditions similar to his arrest in Edinburgh in that he pretended to be a captured officer from Cope's army complete with a black cockade, the Hanoverian emblem. Witnesses such as Peter Barclay, John Maule and William Herdman were not convinced (Blaikie 1975: app. 3). The depositions were taken from witnesses in a civil action brought against Alexander Garioch of Mergie, the Jacobite Deputy-Governor of the port.

Steuart arrived at Dunkirk on 3 December 1745 and immediately went to see the Intendant to enquire about preparations for an invasion of England. According to the report of an officer sent by Steuart to Scotland, the Rebels intended to bring Marshal Wade to battle. Steuart also apparently hoped to encourage an invasion on the East coast.¹² On the following day he left for Paris and having reached there on the 6th, wrote to O'Brien asking to be put in touch with the Duke of York and the Earl Marischal (*WP*, vol. 271, letter 77). O'Brien hastened to meet him and was able to inform Steuart that a treaty was in existence, whereby the French would assist the Prince with all their power, but told him to mention the matter to no one, particularly the Earl Marischal. O'Brien was at some pains to prevent Steuart from meeting

the Earl, ‘whom he said the French ministry would on no account have anything to do with’, perhaps because he was believed to be opposed to the campaign.

On 8 December, Steuart presented his credentials at Versailles. At an evening audience the King informed him that everything would be done to support Charles and expressed concern at the small number of the Prince’s troops. At this meeting Steuart rashly assured the King that ‘upwards of half the landed interest of England’ would join the Prince if French assistance was forthcoming.

After the audience, Steuart was taken to Tencin to whom he explained the state of the Prince’s affairs, including the reasons for his march to Derby, and the Cardinal seemed pleased with his frank account. Ewald recorded that the Cardinal was most gracious to the Jacobite envoy, ‘an understanding capable man’ and ‘listened attentively to everything which related to the Prince and his little army’ (Ewald 1904:221–2).

Thus far Steuart had every reason to suppose that effective help would be forthcoming and appeared to be executing his commission with a fair measure of success. Early in January, James III wrote that:

The choice the Prince made in sending you into France was very agreeable to me, your presence has certainly forwarded our affairs...and I am glad to remark that by your behaviour since your arrival...you have made yourself personally agreeable to (the) ministers.¹³

The King also acknowledged ‘the clearness and disinterestedness with which you inform me of our affair’, and added, having expressed surprise ‘at what you say of the small number of the Prince’s troops’, that ‘everything must be done that may encourage the Court of France to support the Prince effectually’.

But by January, Steuart was beginning to wonder if effectual support would be forthcoming and to suspect that an invasion was less than probable. With this realization came rather sharper exchanges and during one conversation with Maurepas,¹⁴ Steuart pointed out that since the Rebels had served the purposes of France in drawing English troops from Flanders, the French in turn had an obligation to the forces of Prince Charles. In an extraordinary exchange, Steuart argued that if French help was not forthcoming, the Rebels would be forced into an alliance with England (Ewald 1904:222).

It was after this incredible conversation that Steuart finally met the Earl Marischal who confirmed his earlier fears. The Earl frankly told him that he did not trust the French Ministry and of the failure of O’Brien to secure a subsidy from Spain; a subsidy which Steuart later managed to negotiate. By 23 December, the Duke of York had left for St Omer in order to keep in contact with a projected invasion supervised by Richelieu, but despite this outwardly hopeful sign Sir James was still dubious. He himself travelled to

Dunkirk to observe events but the experience of the next few weeks confirmed his suspicions. The port of embarkation was changed from Dunkirk, to Calais, to Boulogne and by 15 January although: ‘shipping was kept in pay and every appearance of an embarkation against England kept up, nobody of the least penetration believed that there was any reality in it’.

The invasion was finally cancelled and although Steuart thought that aid might be forthcoming after the summer of 1746, he seems to have been profoundly depressed. He even found himself unable to inform the Prince of the state of affairs in France and caught in the cross-fire of the interminable quarrelling, which was so much a feature of the whole movement. By April his disillusionment was complete and he wrote to the Old Pretender to tell him of very changed conditions. Cardinal Tencin had complained:

of the jealousies subsisting between those employed on your Majesty’s affairs; which produced ill-humour and contradiction; as I knew there was truth in what he said, I proposed as a remedy that no mortal for the future, should open their lips to the Ministers, but Mr O’Brien who was present, which the Cardinal approving of I have never gone near of them since, but once that I also attended the Colonel.

Steuart was hurt by Tencin’s suggestion that money lying at his hand ‘was in a very bad channel’ and concluded his letter: ‘I am heartily sorry it is so little in my power to be of service to your Majesty, it is the only thing I wish for, what I left Scotland for and what I hope shall ever be my aim.’¹⁵

Some eleven days after this letter was written Culloden was lost and on 23 May Steuart wrote to the Old Pretender: ‘The dismal news of the fatal battle of Culloden, is but too well confirmed to us by all accounts which have hitherto come from England.’ But he did offer some grains of comfort: two frigates had sailed (*Le Mars* and *La Bellone*), while the Brest Fleet might venture out. By such means he kept ‘up the little spirits’ he had left, although one belief did give him some satisfaction: ‘in a country like Scotland there cannot be any great danger of HRH’s Person’.¹⁶

Post 1746

After the collapse of the Rebellion, Steuart remained in Paris in 1746, issuing funds to the needy, and informing Rome of new arrivals from Scotland.¹⁷ Characteristically, he took his duties seriously:

I hope your Majesty shall not have reason to complain of any extravagance; my view shall be confined to the removing of absolute want, and the keeping up of common decency, for your Majesty well observes that the rank, as well as the merit or necessity of everybody should be considered.¹⁸

Elcho renewed contact with Sir James in June 1746, following his successful escape from Scotland. He recorded that Steuart actively engaged with the Prince in the hope that the French Court could be persuaded to raise regiments in order to support the exiles. 'The Chevalier did manage to get a regiment for Lord Ogilvie with the help of the Duke of York, *Le Regiment d'Ogilvie (Journal: 56)*.

Steuart's involvement with the Prince's cause is also confirmed by the pointed terms of a commission which he received from Charles on 29 December 1746. His instructions were as follows:

Whereas we have entrusted you with full powers dated this day to treat with the French Court concerning our affairs, and as you have these powers exclusive of all others, you are most exactly to obey the following orders and instructions.

First. You are to observe the strictest secrecy with regard to the present commission, which you are not to acknowledge to any person but the King or his ministers.

2^{ly} You are not to present your Credentials to them until you are call'd upon to receive proposals for our service. You will then be able to judge of the sincerity of their intentions of which you must inform me.

3^{ly} You are to train on no long negotiations, nor are you to suffer yourself to be amused with vain appearances and hopes of succour; if the Ministers pretend that the King has a mind to undertake something in our favour, you are to demand a proof of his sincerity. Let that be either his daughter in marriage or a large sum of money, not under a million. If you find them cold and backward you are to communicate them my orders to leave the Court until matters are riper, and if they demand a plan or proposals, Let it be exactly conformable to what we have already proposed ourself; as it is not our intention to come into any scheme but one which may at least carry along with it a strong probability of success, you are to concur in no measures which seem only to work the affairs of France by occasioning a diversion on the part of Great Britain, but on the contrary to take all possible measures to prevent and disappoint such any scheme...¹⁹

Steuart's embassy was unsuccessful, and indeed he had already written to James indicating that he had hopes of escaping the Attainder and thus of returning to Scotland. The King replied that he was glad to hear this news since I am sensible of what you have done for the cause not to be desirous that sufferings should at last increase no more'.²⁰

Sir James did escape the Attainder, but not the Act of Indemnity, although this only meant that an exile of perhaps three years duration would be

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necessary.²¹ But in 1748 a Court of Oyer and Terminer was convened in Edinburgh and although no new evidence was forthcoming, a 'True Bill' was found against him.²² This was a much more serious matter in that it made a speedy return to Scotland impossible. As Chalmers remarked, 'This event was considered, by the friends of government, as the greatest victory, which George II had obtained over the Jacobites of Scotland, since the battle of Culloden' (Steuart, 1805:vi, 369), a remark which, if true, gives some indication of Steuart's perceived importance.

Sir James was now in a distinctly embarrassing position, torn between his loyalty to his King, and the desire to save his immediate family from ruin if not exile. As early as 1746 he had written to the Old Pretender to explain his position, and he wrote again on 7 January 1746 to elaborate further upon his case:

I take the opportunity of sending to your Majesty, the most lively assurances of my duty and unshaken loyalty, and at the same time my hearty wishes that your Majesty may see many happy returns of a happy new year. Since I had last the honour of writing to your Majesty I have lived by the advice of my friends as privately as possible in this country, hoping that under the protection of the laws at home I might have returned after the elapse of three years, but the unrelenting bitterness of your Majesty's enemies has thought fit to mark me particularly out for an object of their resentment, by having a bill of treason found against me without any proof and merely by the force of power.... I flatter myself that your Majesty does me the justice to believe that married and with a family as I was, nothing but the most inviolable attachment to your Royal House cou'd have made me quit my tranquillity at home upon the least prospect of a possibility of serving my King. These are still and ever shall be my sentiments.

From this your Majesty will easily see the hardness of my present situation, where the sollicitations of my friends to save my family from ruin and the threatening prospect of it, are combating with the character I have of being inviolably attached to your Majesty.

If it be true that the English Government requires no more but a promise to live peaceably I shou'd be more embarrassed than if they were to exact a servile submission as the price of what is my own. The first would look like generosity and might lay me under a restraint in case your majesty's future service shou'd call upon me. As the second cou'd only be intended to discredit me with your Majesty, and to hurt me in the oppinion of honest men, my after behaviour would show that my compliance was the effect of force, and that I had only given way as many an honest man has done to the violence of my enimys in order to be more able to hurt them at another time.

Both, however, are most disagreeable and nothing but your Majesty's goodness in constructing my actions as they really are (of which I have already had proofs) cou'd give me the smallest liberty upon this occasion and an assurance of this from your Majesty would prove to me an infinite satisfaction.

I have hitherto made no submission of any kind to the government and have answer'd my friends letters as prudently as I have been able desiring them to inform themselves as well as possible of the present dispositions of government as to the granting of favour and the conditions requir'd. This contrast of Duty and Interest shows the deplorable situation of your Majesty's friends at home where they can be of most use to the Royal Cause, and cou'd I be employed by your Majesty abroad and allow'd at present to go home I cou'd soon dispose of all my effects and immediately come over to be dispos'd of as your Majesty shou'd think fit, but of this your Majesty only can judge. My wife begs to be lay'd at your Majesty's feet.²³

No word came from Rome however, and Steuart was not called upon to make any further effort or sacrifice. He was apparently genuinely attached to James and seems to have been afraid that even this astonishing, if carefully worded, letter might cause offence. Such was not the case, and subsequent correspondence would seem to indicate that Steuart always enjoyed the respect and attachment of which the pragmatic Edgar gave him such frequent reminders.

Exile: 1746–63

Steuart moved to Sedan in 1747. Two years later Elcho visited him in Angoulême; Steuart had rented a property nearby (Guiscal). Elcho recalled that 'My brother-in-law, the Chevalier Steuart, was greatly beloved. His name made people think he was closely connected with the Royal Family, and as a result he was held in great esteem'. While Elcho found his days agreeably filled with banquets, hazard, and dancing he felt oppressed with the 'miserable condition' of the peasants. Their clothes consist of linen smocks, breeches, and wooden clogs. They sleep on straw and their bread is as black as a chimney' (*Journal*: 70).²⁴

In September 1753 Elcho was again residing with Steuart in Guiscal when he confided that his brother, who was then in France, might be unwilling to continue financial support. It was perhaps for this reason that Steuart wrote to Edgar on 21 September, indicating that:

I have...taken the liberty to mention to the King my earnest desire that he would be so gracious as to interest himself in procuring a

colonels commission for Lord Elcho in his service, as he has a good income and loves to appear in Paris, I cannot help thinking (even after all that has passed) that it is a reflection to see him no more than a captain.

Besides, he felt that a higher rank would 'do honour to the cause for which he suffers'.²⁵

Despite the surroundings and the gaiety of Angoulême there was now and then a flash of boredom. During one visit to Jarnac, Steuart wrote to Edgar:

we are all living in the old dull way, as much out of the world as if we were at the Cape of Good Hope and, which is worst of all, without the least prospect of changing it for the better.²⁶

Sir James seems to have been looking for something to occupy his mind. It was probably not until the visit of the exiled Parlement of Paris that he found men who really interested him.²⁷ From the members of the Parlement he procured a great deal of information as to the state of France and these meetings may have encouraged a return to more academic pursuits.²⁸

Steuart left Angoulême for Paris at a time when the fortunes of the Jacobite Party could be seen to be at a low ebb. Even if still in sympathy with the Old Pretender, he obviously felt that he could look to his own interests without embarrassment. From this point on Steuart was careful to avoid giving further cause for concern.

Steuart arrived in Paris in July 1754. Elcho recorded that:

the Chevalier Steuart came to live in the capital whilst my mother remained in Angoulême. He took up his quarters at the Hotel de Hollande, Rue de Colombier. As he had been very hospitable to members of the Paris Parlement during their exile at Angoulême they repaid his courtesy on their return to the capital and often invited us to dinner and supper at their houses. Among them figured M.de la Rivière, a wealthy man from St Dominique who had a fine house in Paris which I frequented.

(Journal: 82–3)

It was through the good offices of Mercier de la Rivière that Steuart met Montesquieu and probably Mirabeau whose *Friend of Man* (*L'Ami des hommes*, 1756) was one of the sources which most affected the shape of Steuart's future work. Steuart was still in Paris in May 1755 (*ibid.*: 83) but would appear to have departed for Brussels soon after in order to avoid compromising his position in the event of hostilities breaking out between France and Great Britain. Sir James stayed in Brussels until the Spring of

1756 and when his wife returned from a visit to London, where she had gone to see to the inoculation of their son and to make a further application for pardon, the family removed to the Spa.

It was here that Sir James met Mr Burrage, the English envoy to the small courts of the Rhine. Mrs Calderwood describes him as a ‘glum like carle’ but he persuaded Sir James to visit Germany and entertained him royally when he reached Frankfurt. The Steuarts spent the whole of the abnormally severe winter of 1756–7 in Frankfurt and put the time to good use. Sir James began to visit the merchants of the town and to learn German, thus adding this language to those he already commanded: French, Spanish and Italian. In turn, Mr Burrage provided Steuart with a great deal of information about the state of the country and its universities.

Sir James finally settled at Tübingen, a small quiet town lacking the elegancies of life but with the advantage of being far from the war. Lady Frances described it as:

the most remote place we have yet been in since leaving Great Britain, a small country town, but its deficiencies are fully recompensed to us from the good quality it has with regard to James’ education which is on as good a footing here as anywhere in Europe.²⁹

Whatever the extravagancies of the Duke of Würtemberg, the university enjoyed his patronage and was at this time ‘celebrated for its skilful professors’.³⁰ The family stayed in Tübingen for four happy years and Sir James found little difficulty in writing his *Principles* in such an atmosphere.³¹

In 1761, Lord Barrington, who had met Sir James during the Foreign Tour, secured a cornetcy for his son. With the problem of his career solved, there was now no further reason to stay in Tübingen and having refused an offer from the Duke of Würtemberg, Sir James and his family left for Holland in June of the same year. As it turned out, the decision to leave Germany was to involve Sir James in his last political adventure and, indirectly, to bring about his return to Britain.

The Steuarts returned to the Spa in 1762. But on 27 August, Steuart was arrested by the French and his house raided. Lady Frances wrote to young James to tell him of the event and the search for the papers. One reason for the arrest, which was effected on neutral territory, was Steuart’s well-known and well-planned expression of satisfaction with the course of the Seven Years War. A further reason has been found in his close knowledge of French affairs and in particular of the fragile state of the economy. But a further, telling motive for the arrest is to be found in a subterfuge which might well have appealed to Steuart.

Paul Chamley has revealed that Steuart had been caught (by design) in possession of coded plans for the seizure of Santo Domingo (Haiti), plans which had been prepared for Mercier de la Rivière ‘who had a personal

pecuniary interest in an English invasion of the island and may also have realised that it would do his friend Stuart no harm in the eyes of London if he were arrested by the French' (King 1988:24; Chamley 1965:44–61, 110–11; Elcho's *Journal*: 107). In the event, Stuart was not freed until the end of the war when Choiseul came personally to inform Sir James of his release.

Pardon

Under the impression that Lady Frances had persuaded the British Ministry to intercede on her husband's behalf, Sir James hastened to London only to discover that in the eyes of the law he was still a traitor—no minor matter in view of the execution of Archibald Cameron only eight years earlier.³²

Stuart was not arrested and retired safely to his remaining estate of Coltness, near Glasgow. While he worked hard to complete the *Principles*, his correspondence reveals a growing anxiety which was shared by his benefactor, Lord Barrington (cf. Stuart 1805:vi, 379). In a revealing letter to Dundas, ironically Stuart's former friend, from Cavendish Square, 23 July 1763, Barrington wrote to seek protection for *his* old acquaintance, adding that he was 'thoroughly convinced' that Stuart had 'entirely renounced the Pretender and his Interests'.³³

Baron Mure, Barrington and Stuart maintained an anxious correspondence in the course of 1764.³⁴ But the arrangements proved unexpectedly difficult. It was only in January 1767 that the Duchess of Hamilton was able to inform Mure that:

I am very happy to have it in my power to inform you that Sir James Stuart's affair is in a good way. I am not sure that it has been done directly as Sir James wished, but I can't doubt of its being finished to his satisfaction. When I can see Mr Conway, to know the particulars, I will write to you again, if there should be any thing necessary for Sir James's friends to do.³⁵

The application, signed by Conway, was drawn up on 1 January 1767 submitting that:

- 1 Stuart had never borne arms against the King;
- 2 Early in 1749 he had applied for pardon 'in the most submissive and dutiful manner';
- 3 He had left France on the approach of the 'late rupture in 1755';
- 4 Lady Frances had made, since 1755, three expensive journeys to solicit pardon and delivered one application 'upon her knees';
- 5 The King had accepted the services of Stuart's son as a cornet of dragoons;

- 6 Steuart's conduct abroad had not only been such as to avoid offence to Great Britain, but had led to his imprisonment by the French, to 'the disquiet of his mind, hurt to his health, and prejudice to his fortune and private affairs'.

The application concluded: 'there does not remain in his breast a sentiment which does not breathe the most dutiful attachment and warmest loyalty'.³⁶

The application for pardon was duly referred to Thomas Miller, the Lord Justice Clerk (later to become Lord President of the Court of Session), who produced a report dated 19 February 1767. In this report Miller noted that a True Bill had been found against Steuart on 13 October 1748 but that 'It is impossible to discover upon what evidence the Grand Jury proceeded'. But he did point out that it was widely believed at the time 'and is highly probable' that the charge was based upon Steuart's known correspondence with Rome. Miller went on to suggest that Steuart's subsequent conduct abroad had been unexceptional and that 'I do believe, he was early and deeply impressed with the most sincere sorrow and repentance'. Miller may not have been truly convinced and in recommending clemency placed more emphasis on the fact that there had been a 'happy change in the sentiments and conduct of those who had so long remained disaffected to your Royal House'. In the circumstances, Steuart may have been regarded as harmless. It is interesting to note that Miller should have concluded that the facts of Steuart's association with the Cause 'remain true'.³⁷

Thus far all was well. On 12 March Rouet was able to tell Sir James that the application had been presented by Conway at a Cabinet meeting and that he confidently expected 'D.H.' would soon be able to give him good news.³⁸ But something went wrong and in April 1767 Barrington wrote to say that there would be further delays. Sir James can hardly be blamed for reminding the hard-working Mure that time was running out.³⁹ It was not until *November 1771* that Steuart was able to write thanking Lord Bute as 'the happy instrument of drawing me out of the gulph of distress into which I have been plunged'.⁴⁰ The formalities were completed in December when the Attorney-General, given the opinion of the Lord Justice Clerk, *now almost four years old*, recommended a pardon, rather than a *noli prosequi* as 'the clearest and fullest indemnity to Sir James Steuart'.⁴¹

The terms of the pardon, while formal, are interesting: 'We do, by these presents, give and grant unto him our firm peace...although the treasons, misprisions of treason, felonies, and other crimes and offences, be not specified, or not particularly named, or uncertainly specified.'⁴²

Steuart was presented at Court on 20 March 1772 by 'his never failing friend, Lord Barrington'. According to Chalmers, His Majesty, who received Steuart 'with his accustomed grace', asked him 'with his usual knowledge of the world':

If he were then writing anything more? Sir James answered, with the address which was peculiar to him, *That he was only employed in correcting what he had already written.* On a subsequent day, the king asked Lord Barrington what induced Sir James to depart from the political principles of his ancestors, who had been strongly attached to the Protestant succession. Lord Barrington answered, from Sir James information, that such had been the personal civilities, which he had received from Charles Stuart at Rome, he thought himself obliged to return them at Edinburgh. The king said, *he did not like him the worse for his motive.*⁴³

It is doubtful if anyone believed him. One also might wonder how Stuart's forefathers might have reacted in similar circumstances to those Stuart faced in 1739.

Stuart died on 26 November 1780, a disappointed but not a bitter man. Lord Elcho bleakly recorded that 'I received the news at Montbeliard on 9 January 1781. He had married my sister in 1743 and in 1744 my nephew was born' (*Journal*: 154).

Stuart's connection with the Jacobite Party was well known to many contemporaries, and well hidden by early biographers such as Dr Kippis and George Chalmers. In a letter dated 11 April 1804 General Sir James Stuart wrote to Chalmers, who was overseeing the publication of the *Works*, informing him that 'It is not in my power to give you much further information respecting my father's life'. He claimed that he had been little at home' but sent on part of the Kippis manuscript 'which contains most of the private anecdotes worth relating'.⁴⁴ But the General must have known more, especially since it is believed that it was he who recovered the *Journal* after Elcho's death in 1787.⁴⁵ The General was very close to his father and also to Lord Elcho.⁴⁶

But if the facts regarding Stuart's connection with the Party are being slowly uncovered, it is much more difficult to attain some understanding of his motives. Perhaps the most intriguing contemporary document is the letter from Stuart's aunt, Elizabeth Mure, to his niece, Mrs Calderwood-Durham, from Caldwell, 20 December 1787. Mrs Mure was writing on the occasion of the death of the young woman's brother and to express her sympathy. But for our purposes the letter is of special interest, because while declining any extended comment on Sir James's career, Mrs Mure reveals a good deal:

I'm really at a loss, my Dear Madam, how to answer the remainder of your letter. Were we by the fireside alone, no doubt I could give you more information than most people now alive, but these incidents are improper for a publication. Our friend's notions of government would ill suit the rage for freedom (I may call it) that now reigns in

this country, and is fast running into licentiousness. His ambition was to have an active share in a government that he approved of, and (he) was a Jacobite on some Whig principles, but not the whole of them.

Mrs Mure went on to suggest that the most important single reason for Steuart's commitment to the Cause was thwarted political ambition at home, arising in part from the dominant influence of the Dundas family, and partly from the fact that Robert Dundas (1713–87) had outstripped Steuart professionally.

In short, Madam, I look on this as the foundation of all his after conduct, for had that revolution taken place which he wished, he would have been the first man in the state. When their Prince was at Ed' he was consulted in everything, he wrote the Manifesto, and several little things in the public papers, and was sent ambassador to France to negotiate assistance.

(Chamley 1965:115–16)

If, as John Gibson had suggested, the Manifesto provides some guidance as to the kind of State which Steuart would have preferred, then it should be noted that the ideals expressed in that document could have been supported by Steuart's ancestors in the seventeenth century, not to mention the great Marquis of Montrose, the defender of Charles I. Equally intriguing, in view of the reference to the Union, is the question of what Steuart's ideal State might have been—a separate Scotland? As Charteris has argued, 'Hatred of the Union was to supply the solitary political motive for the Rebellion of '45.' (1907:12).

Notes

- 1 The early history of the family is traced in Steuart (1966). The biographical material which follows is a much modified version of the original.
- 2 Steuart had four sisters. Elizabeth, who was unmarried, lived in the family home of Coltness until her death in 1803. Margaret married Thomas Calderwood of Polton in 1735. Agnes married Henry David, afterwards the Tenth Earl of Buchan, in 1739. Marriane married Alexander Murray of Cringletie in 1749. Murray served with his friend Wolfe in the capture of Quebec (*Coltness Collections*, hence cited as CC). All four sisters were described as beautiful and talented. Margaret was painted by Allan Ramsay in 'a master piece of youthful genius' (Smart 1992:24). Ramsay the elder described the picture as 'excellent': 'I began to think it not a bad politick for young Beautys to be seen and known in my Son's painting room' (Smart 1992:280).
- 3 Steuart attended Mackie's classes in every year between 1729 and 1732. The Professor's class register is preserved in Edinburgh University Library. It is interesting to note that such prominent Jacobites as Oliphant of Gask and Murray

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- of Broughton also attended these classes, in 1742 and 1734 respectively. Mackie was an influential teacher and may well be responsible for Steuart's later interest in history and the classics. For an account of his syllabus, see the *Scots Magazine* (1741, 3:372–3). On this teaching, see L.W.Sharp (1962).
- 4 Steuart later considered that people should undertake such tours 'either in their very early years, for instruction in the languages, or after they had arisen to eminence in their professions, and had become independent of the world' (CC 1842:285).
 - 5 Letter from Rome, dated 14 January 1740, *WP*, vol. 219, letter 155.
 - 6 Letter from Lyons, dated 3 June 1740, *WP*, vol. 223, letter 45.
 - 7 *Autobiography*: 111.
 - 8 *Woodhouselee MS* (Chambers 1907:48).
 - 9 Archibald Stewart was head of a magistracy which had done little to secure the city against the rebels. Chambers, *History of the Rebellion in Scotland in 1745, 1746* (1828) in Constables *Miscellany*, vol. 1:80. The Provost was later tried and acquitted of treason (*Scots Magazine* 9:747) and *State Trials*, ed. by T.B. Howell (1813, vol. 18).
 - 10 *The Jacobite Lairds of Gask*, ed. T.L.Kingston Oliphant, Edinburgh (1870:113).
 - 11 Reprinted in the *History of the Rebellion in Years 1745 and 1746*, written by an anonymous Whig, and edited by Henrietta Taylor, London (1944:373–5). I am indebted to John Gibson for this reference.
- The terms of the Manifesto, in its second and more polished form, may reflect the sentiments of the Chevalier Ramsay (1686–1743) who asserted that the Stuart claimants to the throne 'had no ambition of absolute government' and who used his *Life of Fenelon* to stress that James III 'had been educated to believe in balanced government where royal authority was moderated by the advice of the wisest and most experienced subjects' (Henderson 1952; Lenman 1980). Steuart's connection with Ramsay has been traced by Chamley (1965:55–8), who suggested that 'Pour un jeune Jacobite, cultivé, arrivant à Paris en 1740, Ramsay était l'homme a voir'.
- 12 This report, of which a summary and quotations are given below, was written by an unknown officer who had been sent to Scotland by Steuart in order to negotiate bills of exchange to the value of £1,732 stg. It is hereafter referred to as the 'narrative', PRO, SP/54/28, ff. 334–44. A summary of this narrative is given by A.C.Ewald in *The Young Pretender* (1904).
 - 13 Letter dated 14 January 1746 in acknowledgement of two letters written by Steuart on 12 and 13 December. *WP*, vol. 272, letter 18.

Not only was Steuart forthright with the French, he also wrote to Rome and gave James accurate accounts, astonishing the King with reports of the small numbers. It was not the situation that his son had represented to him. Steuart, like Lord Elcho and their mutual friend Marischal, was a plain spoken man who had nothing to gain by relating anything but the truth.

(Kybett 1988:184)

- 14 In a letter from Coltness, dated 25 March 1778, addressed to Archibald Hamilton, Steuart wryly remarked that

I know something of French invasions, and I know something of the sentiments of M.de Maurepas concerning them. There is not one man

in Europe who forms so just an opinion of the power of GB by Sea as this old minister.

(Raynor and Skinner 1994, letter 8)

- 15 Letter from Ghent, dated 5 April 1746, acknowledging a letter from James of 14 March. The King replied on 2 May encouraging Steuart to keep exact account of his expenditure, especially in view of monies raised by the 'produce of my children's jewels'. Steuart had gone to Ghent in order to meet his wife.
- 16 Letter, Paris, 23 May 1746, *WP*, vol. 274, letter 139. A complete account of naval movements has been supplied by John Gibson (1967).
- 17 *WP*, vol. 275, letter 165; vol. 276, letter 5; vol. 277, letter 25; vol. 281, letter 168; vol. 283, letter 40. In a letter to O'Brien dated 21 July 1746, Steuart referred to Spanish funds which had been returned from Scotland. Steuart informed O'Brien that Mr Waters had been chosen by the Spanish Ambassador to control these monies. *WP*, vol. 281 provides a list of officers who had arrived in France. *WP*, vol. 283, addressed to O'Brien, from Sedan, dated 28 April 1747, sought help for 'Mr Fotheringham, Governour of Dundee' being in 'absolute want'.
- 18 *WP*, vol. 277, letter 94, St Germain, 3 October 1746.
- 19 *WP*, vol. 279, letter 177, the commission is dated 29 December 1746 and in Blaikie's view was probably a copy of Steuart's original commission (Blaikie 1975:424). A version of this paper was given in French, item 176 in the above volume and is quoted by Browne in his *History of the Highlands* (1838:3 472–3). Cf. Bongie (1986:148) who argues that the date is accurate, and the instructions 'brutally specific'.
- 20 Letter from Rome, dated 12 September 1746. *WP*, vol. 277, item 25. The letter appears in Browne (op. cit.: 3 462–3).
- 21 It is difficult to see how Steuart could have escaped the Act which expressly excluded those who were still in the Pretender's service and those who had been 'beyond the seas at any time between the 20th July, 1745 and the 15th of June, 1747' (*Scots Magazine*, 1747, 9:259–60).
- 22 *Scots Magazine*, 1748, 10:507; *CC*: 296–8.
- 23 *WP*, vol. 296, letter 59, from Angoulême, dated January 1749. It was believed that Steuart's various applications followed this letter. But it is apparent from a letter written by Lord Drummore (Elcho's younger brother) to Mure of Caldwell, dated 28 November 1748, that Steuart had already explored the issue. Drummore wrote that he had 'high hopes, that upon his submission, he should be pardoned, and some steps have been taken to pave the way for his being well received'.

Drummore had contacted, and expected sympathetic support from, the Lord Advocate, the Justice Clerk, the Duke of Argyll and the Marquis of Lothian. Interestingly, his list included Lord Cathcart, sometime *aide de camp* to the Duke of Cumberland. He added:

there is no room for treaty in this case: I shall therefore give it as my opinion to Sir James, to make the terms of his submission so clear, and so full, as at once to give absolute satisfaction; and I think it best to settle these with Lord Cathcart.

(*Caldwell Papers*: 1 85–8)

Drummore warned that Steuart's initial application(s) might well be rejected as a means of testing his resolve, which indeed turned out to be the case.

- 24 Charteris (1907:132–3); Chamley (1965:104–5).
 25 WP, vol. 343, letter 18.
 26 Letter dated Jarnac, 29 September 1752. WP, vol. 336, item 17.
 27 The Parlement was banished in 1753 and recalled in 1754.
 28 CC: 301. It is interesting to note that one of the members of this Parlement was none other than Mercier de la Rivière. Chamley (1965:44, 74–7).
 29 Lady Frances to Mrs Napier, dated Tübingen, 25 November 1757. National Library, MS 5351.
 30 *Annual Review*, 1805, 4:252–3.
 31 Stuart sent manuscript copies of Books 1 and 2 to Lady Mary Wortley Montagu and to the Margrave of Baden-Durlach. The first is dated 11 August 1759 and the second, 31 August (Steuart 1966:xli, n).
 32 Dr Archibald Cameron was executed in London in 1753 on the strength of a bill of attainder passed against him in 1746 (Smith (LJ): 138). Smith noted, at p. 484, that

We had an instance of an earl who had been sentenced in 1715 and had returned to his native country and lived peaceably in it till the year 1745, when he again joined the rebels and was executed on his former sentence Dr Cameron suffered in Scotland in the same manner. In every country, if a person return after twenty years he is not troubled; it would be thought invidious in the officers of justice to meddle with him.

- Steuart had returned to Britain eighteen years after his departure for Paris.
- 33 Scottish Records Office, Arniston Letter Book, 1756–79, vol. vi.
 34 *Caldwell Papers*, items CXIX, CXXVIII, CCIII, CCIV.
 35 Letter dated 12 January 1767, *ibid.*, item CCVI.
 36 *Scotch Correspondence*, PRO, HO, 103/I ff. 22–3. A shorter version of the same application appears in *Scotch Warrants*, PRO, SP, 57/36 ff. 321–3.
 37 *Scotch Warrants*, 1756–74, ff. 320–7, SP 57/36/. CC.: 328–80.
 38 *Coltness MS* (hence cited as CMS), ‘D.H.’ must refer to David Hume who was back in London at this time as an under-secretary. See Burton’s *Life of David Hume* (Burton 1846: chap. 16). Sir James acknowledged assistance from Hume in a letter dated Coltness, 10 November 1767. *Letters of Eminent Persons Addressed to David Hume*, ed. J.H.Burton (1849:174).
 39 *Caldwell Papers*, 2:97–98. There is a letter from Rouet to Steuart dated London, 4 June 1767 on the same subject. CMS.
 40 *Scotland Correspondence*, PRO, SP, 54/56, f. 71.
 41 *Scotch Warrants*, PRO, 57/36, f. 327.
 42 The document is reprinted in CC: 381–2; the original is in CMS. See also *Scots Magazine*, 1771, 33:699 and 34:220.
 43 Steuart (1805:6:380).
 44 The Kippis MS, later printed in CC, was lent, at least in part, to Steuart’s old friend, Archibald Hamilton. In this letter to George Chalmers, Hamilton referred to ‘the inclosed paquet of curious information respecting the late Sir James Steuart, with which they were highly entertained’ (British Library, Ad MS 22, 902, f. 321). On Hamilton, see Raynor and Skinner (1994).
 45 The *Journal* remained in General Sir James Steuart’s possession until the early years of the nineteenth century when it was returned to the Wemyss family. It was lent to Sir Walter Scott who is believed to have relied upon it when writing his *Tales of a Grandfather* (Charteris 1907:v–vi).

Alice Wemyss has suggested that it was the General who reported Elcho's bitter remarks on observing Prince Charles leaving the field at Culloden. The same author confirms that Elcho saw Steuart frequently, that he was close to him, and further that he 'was the only member of the younger generation with whom Elcho was familiar' (1988:98 and n.).

- 46 General Sir James Steuart (1744–1839) was the last of the line. Details of his career are given in CC: 389–90. The *Works* were published at the General's request, as a memorial to his father. He also caused a monument to his father to be erected in Westminster Abbey (CC: 383).

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Part I
LECTURES

SIR JAMES STEUART AND RICHARD CANTILLON

Peter Groenewegen

Introduction

There has been a strong presumption in the literature that Sir James Steuart was familiar with the work of Richard Cantillon. In his English/French edition of the *Essai sur la nature du commerce en général* of 1931, Henry Higgs, by then the leading authority on Cantillon, claimed that Sir James Steuart cited Cantillon's *Essai* in his *Works* (Higgs 1931:392). Higgs was followed in this surmise, but not in his reference,¹ by Johnson (1937:337); by Sen (1957:198), who cites the same reference as Johnson; by Groenewegen (1983:51–3; 1994:28) and by Hutchison (1988:337). Vickers (1960:244, 253) is more cautious: he refers comparatively to Cantillon's work in his chapter on Steuart but draws no inferences about indebtedness. Brewer (1992: esp. 175–6) is likewise cautious:

there is no evidence that Steuart knew Cantillon's work (though he did refer to Philip Cantillon, whose book, *The Analysis of Trade*, was based on Richard Cantillon's *Essai*) but sections of the *Inquiry* read very much as if they were based on Cantillon.²

A more recent book on Steuart (Yang 1994) makes no comment on whether Steuart had read Richard Cantillon's *Essai* or not, but compares Cantillon's work with that of Steuart on several occasions, sometimes in considerable detail (Yang 1994:22, 50 n.43, 111 n.34, 112, 282 n.16, chaps 2 and 3, app.: 20–3, 68–77). This suggests an implicit assumption on Yang's part that Steuart had read Richard Cantillon's *Essai*.³ Most of the relatively few commentators on Steuart have tended to assume that Steuart either had, or must have, read the *Essai*.

There seem to be only a few dissenters from this general claim. In his 1931 essay on Cantillon, Hayek (1991:242) states, 'James Steuart cites Cantillon with reference to Philip Cantillon's garbled English *Analysis of Trade*', hence by implication denying that Steuart had read Cantillon's *Essai*. Hayek based the argument on Legrand (1900:9) who had reached this

conclusion without presenting evidence. More pointedly, Andrew Skinner in his introduction to the reprint of an abridged version of Steuart's *Inquiry* indicates that

while he [i.e. Steuart] cites Philip Cantillon's *Analysis of Trade*, it is not entirely certain that he read the *Essai sur la nature du commerce en général* (1755). The work usually cited as the *Essai* by Steuart is Melon's.

(Skinner 1966:30 n.2)

This careful statement raises doubts about Steuart having read Richard Cantillon without ruling out the possibility, while at the same time pointing implicitly to earlier wrong references to Steuart's alleged citations of Richard Cantillon which confused his work with that of his cousin Philip, or its abbreviated title with that of Melon.

This chapter examines the evidence on whether Steuart had read Richard Cantillon's *Essai* to decide whether there is any real, positive case for saying that he did so. The next section looks at the internal evidence obtainable from the text of Steuart's *Inquiry*. The section following suggests that if Richard Cantillon's *Essai* was not read by Steuart, the many similarities between the two works can nevertheless be explained by his access to Philip Cantillon's *Analysis*, which incorporated substantial slabs, but by no means all, of Richard Cantillon's earlier *Essai*. A final section presents conclusions on the implications of this discussion.

Did Steuart read Richard Cantillon?

The internal evidence from Steuart's *Principles* determining whether he read or did not read Richard Cantillon's *Essai* is both direct and indirect. On direct evidence, it can be noted immediately that there are no actual citations from Richard Cantillon's *Essai* anywhere in the *Principles of Political Economy*. There are references to Philip Cantillon's *Analysis of Trade* (Steuart 1767:2 17, 18, 48), one of which apparently induced Henry Higgs to make the claim about a Richard Cantillon citation in Steuart's book. These Philip Cantillon citations were mentioned in the commentary literature by Legrand (1900:9), Hayek (1991:252), Johnson (1937:409) and so on. Legrand correctly emphasized its significance with respect to Steuart's knowledge of Richard Cantillon: James Stuart qui le [i.e. Richard Cantillon] cite d'après l'ouvrage de Philippe Cantillon'. Hayek seems to have followed Legrand in this sentiment. This aspect is pursued more fully in the next section.

Other commentators (especially Johnson, 1937:409; Sen 1957:198) have claimed to find a reference to Richard Cantillon in Steuart's *Inquiry* from his references to the 'author of the Essay on Commerce' (Steuart 1767:2 241, 304). The second of these is quite explicit on details of the text consulted,

enabling a clear demonstration that Steuart is talking here about Melon's *Essai politique sur le commerce* and not about Richard Cantillon's *Essai*:

The author of the *Essay on Commerce*, reckons it [that is, the treasure of the Bank of Amsterdam] at four hundred million of guilders, and the Amsterdam edition carries in the margin a correction, which gives to understand, that it amounts to between eight and nine hundred millions.

(Steuart 1767:2 304)

Not only the Amsterdam edition to which Steuart explicitly referred, but all editions⁴ of Melon's *Essai politique sur le commerce* with reference to the Bank of Amsterdam, in fact argued: 'Celle [that is, the Bank] d'Amsterdam est la plus grande & la plus fameuse; on la [that is, "les fonds" or the capital] croit de trois ou quatre cens millions de florins', which a note in the bottom 'margin' corrects to 'huit à neuf cens millions' (Melon, 1734:255 n,*; 1735:241 fn.†; 1761:304). Richard Cantillon's *Essai* provides no similar information in his brief discussion of the Bank of Amsterdam (Cantillon [1755] 1931:505–7). As Skinner indicated in his edition of the *Inquiry* (Skinner 1966:30 n.2) and Cabrillo (1988:175–7) argues at some length, the author of the *Essay on Commerce* mentioned by Steuart refers to Melon and not to Richard Cantillon.

Although Steuart's *Inquiry* contains many sections and arguments which are reminiscent of Richard Cantillon's work, there are no real reasons to presume that such similarities have to be explained by the fact that Steuart had studied Richard Cantillon's *Essai* itself. As Legrand (1900:9) first suggested, Steuart cited Richard Cantillon indirectly 'after', that is, *from* the version contained in Philip Cantillon's *Analysis of Trade*. Much of Philip Cantillon's text is not 'garbled', as Hayek, following Jevons, wrongly suggested; often it repeats Richard Cantillon's text word for word. On other occasions it alters the argument to make the text more contemporary, that is to fit the circumstances of the late 1750s rather than the late 1720s of Richard Cantillon's text. Other sources for Richard Cantillon's economic ideas were available to Steuart. Brewer (1992:175–6) indicates (without developing the matter in any detail) that in addition to Philip Cantillon's *Analysis*, Steuart may have derived some knowledge of Richard Cantillon's ideas from Mirabeau's *L'Ami des hommes*, which had used Richard Cantillon's manuscript extensively, particularly in connection with the subject of population.⁵ Moreover, Steuart knew Joseph Harris (Steuart 1767:2 99), and presumably his *Essay Upon Money and Coins* (Harris 1757), the first part of which likewise embodied many of Richard Cantillon's views, particularly on value, though Steuart most likely knew them indirectly via Postlethwayt's *Dictionary* (Higgs 1931:386). Whether Steuart had access to Malachy Postlethwayt's publications, especially his *Universal Dictionary of*

Trade and Commerce, is not clear. However, if he did, here is yet another way by which Steuart could have gained access to important selections of Richard Cantillon's text without the need to have looked at the original source.⁶

In short, similarities between Steuart's and Cantillon's texts, of the type noted in considerable detail by various commentators (for example, Skinner 1966; Brewer 1992; Yang 1994; Aspromourgos 1996) cannot constitute proof that Steuart had read Cantillon's *Essai* unless it can be shown that the similarity in question has no real counterpart in the texts of Philip Cantillon, Mirabeau, Harris or, in case Steuart had used his works, Malachy Postlethwayt. None of these commentators appear to have carried out such textual analysis.

However, there is some negative evidence that Steuart had probably not read Richard Cantillon's *Essai*. In his discussion of the determination of the par in foreign exchange rates, Steuart (1767: Book III, part II, chap. II) claims that in such determination due allowance has to be made for seignorage, or the cost of minting bullion into coin levied by the Crown. This, Steuart argued, was particularly important in the context of estimating the par in foreign exchange between the coin of a nation like Britain, which did not levy a seignorage on the coinage, and one like France, which did (Steuart 1767:2 18–19). Steuart (1767:2 23) in fact claimed originality on this point, which, he stated, had not been made in any of the literature on the foreign exchanges with which he was familiar. This specifically includes Philip Cantillon's *Analysis of Trade*, which is cited in the general treatment of foreign exchange (Steuart 1767:2 17 and 18) and, more specifically, on the particular issue of the French-British exchanges (Philip Cantillon 1759:99–100). It is therefore interesting to note that Richard Cantillon (1755, 1931:261–3) was quite aware of the fact that seignorage affects the par of the foreign exchanges and that Britain, not levying seignorage for coining bullion at the mint, is disadvantaged in this respect in comparison with countries such as France, which charged seignorage. Given Steuart's limited inclination to claim originality on any point, together with his relative generosity in acknowledging the work of others, this episode seems to suggest that he had not read Richard Cantillon's work. After all, Richard Cantillon had made the connection between seignorage and calculating the par in his *Essai*, the absence of which connection, according to Steuart, made all methods of estimating the actual par on foreign exchange incorrect (Steuart 1767:2 19).

Given that Steuart nowhere explicitly cited Richard Cantillon's work, it is likely that Cantillon's *Essai* never crossed his path. This probability is heightened by the fact that on one matter in relation to which Steuart claimed no one writing on the subject had made the point before him—that is, in connection with the importance of including seignorage costs when estimating the real par on foreign exchange between two countries—Richard Cantillon's

account of the matter does mention the omission which Steuart had identified. This makes it virtually certain that Steuart had not read Richard Cantillon's *Essai sur la nature du commerce en général* when writing his *Inquiry*.

Steuart and Philip Cantillon's *Analysis*

It seems surprising in this context that the similarities between Philip Cantillon's work and that of Richard Cantillon have never been systematically explored. Jevons most misleadingly referred to Philip Cantillon's *Analysis* as 'the garbled translation of 1759' (Jevons [1881] 1931:338–9) and wrongly suggested (333–4) that the two works had been confused by McCulloch (1845:52).⁷ Higgs (1931:376–8) provides a more careful picture of the *Analysis of Trade*, including the suggestion that Philip Cantillon used the French published version of Richard Cantillon's *Essai* rather than the original French manuscript. Nevertheless, his treatment strongly implies that Philip Cantillon's work should be treated as if it was designed to replicate fully Richard Cantillon's material. To this account, Higgs adds rather mysteriously that '[c]ollation of the *Analysis* with the *Essai* has proven unfruitful' without indicating the nature of the results obtained, or expected, from this activity.⁸ Legrand (1900) also does not attempt a detailed comparison between the texts. However, the issue raised in his paper makes such a comparison imperative and its details are included in the appendices to this chapter.

Appendix A shows the extent to which the contents of Philip Cantillon's *Analysis* (summarized by way of a table of contents in Appendix B) replicates those of Richard Cantillon's *Essai*. Most of the topics raised by Richard Cantillon are discussed by Philip Cantillon nearly thirty years later, though, and this is important, the amount of detail which the latter included on many of these topics was greatly reduced. Only seven of Richard Cantillon's thirty-five chapters find no counterpart whatsoever in Philip Cantillon's *Analysis*. However, many of Richard Cantillon's more lengthy chapters among the other twenty-eight are only very partially summarized by Philip Cantillon or are only selectively quoted. In some cases, only such brief summaries are presented; in others, Richard Cantillon's argument is expanded by summaries or quotations from Hume's essays, from Locke's works or, much less frequently, from authorities such as Davenant and the author of *The Universal Merchant*. Hume's influence is particularly apparent in the preface (which has no counterpart in Richard Cantillon's *Essai*), in Chapters XIII–XVIII dealing with money, its circulation, its effects on prices and on interest, and in the chapter on foreign trade. In short, textual comparison of the two works indicates that Philip Cantillon presented what his title promised to do: to analyse trade, commerce, coin, bullion, banks and the foreign exchanges on the basis of the work of Richard Cantillon, the late London merchant now deceased', suitably adapted to present conditions and circumstances.

Even though Philip Cantillon's *Analysis* therefore does not attempt to

reproduce all of Richard Cantillon's *Essai*, it is not unfair to say that Philip Cantillon's book does contain nearly all of the major concepts and basic analyses which Richard Cantillon provided. (However, he invariably failed to include the detail, the rich illustrations, and many of the other finer points so abundantly contained in the earlier work.) There are some major exceptions to this broad generalization. There is no match in Philip Cantillon's *Analysis* for Richard Cantillon's discussion of agricultural surplus and the social division of labour presented in Part I, Chapter XVI (Richard Cantillon [1755] 1931:87–93), probably on the basis of Petty's similar discussion in *A Treatise of Taxes and Contributions*. Second, Philip Cantillon leaves out much of the material on 'undertakers' (*entrepreneurs*), not only from the chapters on the rate of interest (*ibid.*: 199–211) but from the preliminary discussion in Part I, Chapter XIII. However, as implied in Appendix A, the notion of undertakers is briefly explained by Philip Cantillon, not only on the basis of Richard Cantillon's argument in the early, definitional chapter but also in the context of the discussion of the rate of interest. Hence, irrespective of its deficiency in analytical detail, Philip Cantillon's *Analysis* was a very useful source from which to draw the conceptual advances provided by Richard Cantillon's *Essai*, though nearly always without the rich illustrations and analytical background in which they were situated within the *Essai*.

The significance of this comparison for the subject matter of this chapter is that for virtually every topic on which Steuart's arguments have been said to resemble Richard Cantillon's work there is a corresponding similarity with Philip Cantillon's work. To test this hypothesis, a number of examples can be taken from Skinner's many footnote references to Richard Cantillon's *Essai* in his edition of the text of Steuart's *Inquiry* (Skinner 1966). These are shown in Table 1.1, together with the pages of Philip Cantillon's work where similar arguments to those made by Richard Cantillon are to be found. As the notes to Table 1.1 indicate, Skinner provides no passages from Cantillon's *Essai* in this context of which the substance cannot be found in either Philip Cantillon's *Analysis*, or in sources such as Mirabeau's *L'Ami des hommes* and Hume's *Essays*, with which Steuart was acquainted. More interestingly, on a number of occasions, as indicated in notes (c), (d) and (e), the passages in Steuart resemble more closely the argument as presented by Philip Cantillon than as presented in Richard Cantillon's *Essai*. Given the fact that there are no passages indicated in Skinner (1966) where Richard Cantillon's *Essai* can be unambiguously identified as the only possible source, this exercise suggests that Philip Cantillon could have been appropriately substituted for Richard Cantillon in these comparative references.

Repeating the exercise with a number of other commentators who have compared Richard Cantillon's *Essai* with Steuart's *Inquiry* yields very similar results. Brewer's (1992:175–83) discussion of Steuart and Cantillon turns more on differences between the two than on similarities. Where Brewer identifies similarities, these can all be explained by alternative

Table 1.1 References to Richard Cantillon's *Essai* ([1755] 1931) in Skinner (1966), and their counterpart in Philip Cantillon's *Analysis* (1759)

<i>Skinner (1966)</i>	<i>Richard Cantillon (1755, 1931)</i>	<i>Philip Cantillon (1759)</i>
p. 32 n.5	p. 83	pp. 122–3
p. 53 n.7	Pt II chap. 3	p. 115
p. 56 n.1	Pt I chap. 3–6	pp. 6–14
p. 88 n.3	pp. 71, 83	pp. 120–2
p. 119 n.5	p. 83	pp. 122–3
pp. 160–1 n.2	Pt I chap. 10	pp. 21–2
p. 173 n.2	Pt II chap. 2	pp. 28–9
p. 196 n.3	Pt II chap. 8	pp. 47–9, 186–93
p. 205 n.1	pp. 195, 235 ^a	—
p. 291 n.1	Pt III chap. 1 ^b	—
p. 312 n.1	p. 97	pp. 34, 86 ^c
p. 324 n.2	p. 131	p. 44 ^d
p. 341 n.12	pp. 161, 163	pp. 52–5
p. 349 n.17	p. 179	pp. 28–9 ^e , 52
p. 450 n.2	Pt. II chap. 9	f

Notes:

^a I found it difficult to see the resemblance between the argument on these pages and Steuart's text indicated.

^b Also resembles Mirabeau, *L'Ami des hommes* Part III, ch. 2.

^c 'Intrinsic worth', the phrase used by Steuart, is used by Philip, but not by Richard, Cantillon.

^d The gaming example used by Steuart is also used by Philip, but not by Richard, Cantillon.

^e The wheat example used by Steuart is likewise used as an illustration by Philip, but not by Richard, Cantillon.

^f This argument is not in Philip Cantillon, but it resembles passages in Hume.

sources or, by way of Appendix A, by the contents of Philip Cantillon's *Analysis of Trade*. The same conclusion obtains when the exercise is applied to Yang (1994) and to Aspromourgos (1996). In short, it seems difficult, if not impossible to build up a case for Steuart's direct indebtedness to Richard Cantillon's *Essai* by pointing to issues or passages which can only have their foundation in that particular source. Legrand's supposition that Richard Cantillon enters Steuart's system via Philip Cantillon's *Analysis* appears to have been correct.

Conclusions

What other conclusions can be derived from this study of Steuart and Richard Cantillon? Perhaps the most interesting is the corollary it suggests to the frequently made statement that Richard Cantillon was the economists' economist during the second half of the eighteenth century, by indicating that the transmission of his views could occasionally be indirect. This seems to have been the case with Steuart. However, on the available evidence, it was not the case for many of the other great economists of the period. Quesnay, Turgot, Beccaria, Verri and Adam Smith all drew directly on Richard Cantillon's *Essai*, which they specifically cited and more than likely had studied *in toto*. The case of Steuart and Richard Cantillon provides therefore an interesting variant to the transmission of ideas during this part of the history of economics: indirect transmission by means of the incorporation of essential features of an economist's argument in the work of others. For Richard Cantillon's work, the scope of this indirect transmission has been inadequately appreciated with respect to Philip Cantillon's *Analysis of Trade*. This last remark also suggests the conclusion that accepting propositions from authorities without adequate proof can sometimes be a dangerous procedure in the history of economic thought.

Appendix A

Concordance of Richard Cantillon's *Essai sur la nature du commerce en general* ([1955] 1931) and Philip Cantillon (1759)

<i>Richard Cantillon</i> (1755) 1931)	<i>Philip Cantillon</i> (1759)	<i>Further</i> <i>observations</i>	
<i>Part I</i>			
Chapter I	'Of Wealth' paras 1–3	pp. 1–2	
Chapter II	'Of Human Societies' paras 3–5	pp. 6–8	
Chapter III	'Of Villages' para 1	pp. 8–9	
Chapter IV	'Of Market Towns' para 1	pp. 9–10	rough paraphrase only
Chapter V	'Of Cities' paras 1–3	pp. 13–14	
Chapter VI	'Of Capital cities' paras 1–2	pp. 14–15	paraphrase in part
Chapter VII	'The Labour of the Husbandman is of less value than that of the Handcrafts-man' paras 1–3	pp. 15–16	

Continued:

<i>Richard Cantillon</i> ({1755} 1931)		<i>Philip Cantillon</i> (1759)	<i>Further observations</i>
<i>Part I</i>			
Chapter VIII	'Some handicraftsmen earn more, others less, according to the different cases and circumstances' paras 1-2 para 4	pp. 16-17 pp. 19-20	
Chapter IX	'The Number of Labourers ... is naturally proportioned to the demand for them' paras 1-2 para 5 para 7	p. 20 pp. 20-1 p. 21	
Chapter X	'The Price and Intrinsic Value of a Thing...' paras 1-2	pp. 21-2	
Chapter XI	'Of the Par or the Relation between Land and Labour' paras 1-5 para 7 para 17	pp. 22-5 pp. 24-5 p. 25	frequently paraphrase of argument
Chapter XII	'All Classes and Individuals...subsist or are enriched at the Expense of Proprietors of Land' paras 1-6 paras 8-10	pp. 114-16 pp. 117-18	frequently paraphrase of argument
Chapter XIII	'The Circulation and Exchange of Goods...are carried on in Europe by undertakers, and at risk' paras 1, 3, 5, 6 para 11	pp. 126-7 p. 127	paraphrase of argument
Chapter XIV	'The Fancies...of the Prince...determine the use to which Land is put in a State'	—	

Continued:

<i>Richard Cantillon</i> (1755) 1931)	<i>Philip Cantillon</i> (1759)	<i>Further</i> <i>observations</i>
<i>Part I</i>		
Chapter XV	'The Increase and Decrease of the Numbers of People...depend on the Taste, the Fashions and Modes of Living of the Proprietors of Land' paras 1–3 para 5 para 7 para 19	pp. 119–21 p. 121 p. 122 p. 122
Chapter XVI	'The more Labour there is in a State, the more rich it is esteemed' para 11	paraphrase only pp. 127–8
Chapter XVII	'Of Metals and Money, especially Gold and Silver' paras 1–3 para 4 paras 12–13	in part only only approximately and with alterations pp. 86–7 p. 26 pp. 97–9
<i>Part II</i>		
Chapter I	'Of Barter' para 3	pp. 28–30 argument replicated
Chapter II	'Of Market Prices'	—
Chapter III	'Of the Circulation of Money' paras 13–14	pp. 43–4 similar in analysis of problem only
Chapter IV	'Further Reflections on Circulation'	—
Chapter V	'Of the Inequality of the Circulation ...'	—
Chapter VI	'Of the Increase and Decrease in the Quantity of Hard Money in a State'	pp. 52–3 only reflects some of this content
Chapter VII	'Continuation of the same subject'	—
Chapter VIII	'Further Reflections on the same subject' para 5	p. 126 with respect to bullion as sign of comparative wealth
Chapter IX	'Of the Interest of Money, and its Causes'	some arguments replicated

Continued:

<i>Richard Cantillon (1755) 1931</i>	<i>Philip Cantillon (1759)</i>	<i>Further observations</i>
<i>Part II</i>		
Chapter X	'Of the Causes of the Increase and Decrease of the Interest of Money in a State' para 5	pp. 66–7 profits, interest and risk
<i>Part III</i>		
Chapter I	'Of Foreign Trade'	—
Chapter II	'Of the Exchanges and their Nature' paras 2–7 paras 11–12 para 13	pp. 74–8 pp. 79–80 pp. 82 similar in content
Chapter III	'Further explanations of the Nature of the Exchanges' para 6 para 8 para 10	pp. 78–9 p. 83 pp. 83–4 rough paraphrase only
Chapter IV	'Of the Variations...of Values...[of] Metals which serve as Money' paras 1–6 para 7 [for two sentences] para 11 para 15 paras 16–20	pp. 87–91 p. 91 pp. 91–2 p. 95 pp. 93–7 some with variations not exactly paraphrase rough summary
Chapter V	'Of the Augmentation and Diminution of Coin in Denomination'	pp. 102–14 only rough approximation
Chapter VI	'Of Banks and their Credit' paras 1–4 paras 6–11	pp. 169–72 pp. 173–6
Chapter VII	'Further Explanations and Enquiries as to the utility of a National Bank' para 1 paras 6–7 para 10 paras 15–18 para 20 para 24	p. 185 pp. 185–6 p. 182 pp. 183–4 pp. 180–2, 184 pp. 184–5 rough, similarity on Bank of Venice rough paraphrase
Chapter VIII	'Of the Refinement of Credit of General Banks'	—

Appendix B

Table of contents: Philip Cantillon (1759)

Introduction

Chapter

I Riches

II How States may be formed

III How Villages may be Settled

IV How Market Towns may be Established

V How Cities may be Established

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VII The Labour of the Plowman is of less value than that of the Handicraftsman, and the Reasons why this is so.

VIII Some Handicraftsmen in certain Trades, earn more than others, according to the Circumstances of the Time

IX The Number of Labourers and Handicraftsmen is proportioned to the Demand for them

X The Price of Anything, in general, is estimated by the Value of the Land which produces it, and the Labour and Time taken in forming it into use.

XI Of the Par and Equality between Land and Labour

XII Of Mines and Barter

XIII Of Money and its Value

XIV Of Circulation of Money

XV Of the Ways and Means by which real species Increase and Decrease in a Kingdom

XVI Of the Consequential Effect, which the Increase and Decrease of the current Coin of a country, has on the Community

XVII Of the Interest of Money

XVIII Of Inland and Foreign Exchange

XIX Of Trade and Money, particularly Gold, Silver and Copper, their Proportional Value and Variations with respect to the Use made of them

XX Of the Increase and Decrease of Coin in Denomination

XXI All orders of Men in a Community, or State, subsist and are enriched at the Expense of the Proprietors of Land

XXII The Increase and Decrease of the Number of People in a State or Kingdom, principally depend on the manner of living of the Age, the Taste and Luxury of the great Proprietors of Land

XXIII Of the Inland and Foreign Trade

XXIV Of Bankers and Banks

XXV The Subject of the Exchanges continued.

Notes

- 1 Higgs mentions Steuart's *Works* (3:22) as the place of citation; Johnson (1937:409) indicates correctly that this was a reference to Philip Cantillon's *Analysis of Trade*. Johnson argues that the citation to Richard Cantillon's *Essai* occurs in Steuart's *Works* (3:391, 408).
- 2 Brewer suggests that these similarities are partly explicable by Steuart's access to Mirabeau's *L'Ami des hommes* which had plagiarized Richard Cantillon's *Essai* on important points.
- 3 Aspromourgos (1996: chap. 9) makes similar claims.
- 4 I am indebted to Arnold Heertje who allowed me to pursue the matter in his splendid library which contains many editions of Melon, including no less than three Amsterdam editions and two distinct variants of the 'first edition'.
- 5 On Cantillon and Mirabeau, see esp. Hayek (1991:273–8).
- 6 On Cantillon and Postlethwayt, see Higgs (1931:383–6 and Appendix A); on Postlethwayt more generally see Johnson (1937:185–208 and Appendix B).
- 7 Since McCulloch does not appear to have known of the existence of Richard Cantillon's *Essai* while he described the contents of Philip Cantillon's *Analysis* quite accurately, it is Jevons who confused the issue of the relationship between the two works.
- 8 An exception is Higgs (1931:5 n.*) where a variant of the texts is indicated, a variant incidentally replicated in the version of the argument presented by Postlethwayt, as Higgs also indicates.

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THE DIFFICULT RECEPTION OF JAMES STEUART AT THE END OF THE EIGHTEENTH CENTURY IN FRANCE

Manuela Albertone

The difficulties that stood in the way of disseminating Sir James Steuart's theory in France—a theory of public credit based on his analysis of the economic and political evolution of society—are an interesting sign of certain resistance in French eighteenth-century economic culture. Indeed, they show how slowly the French caught up with financial subjects, and how difficult they found it to grasp the relationship between economics and politics resulting from modern management of the public debt.

The *Inquiry into the Principles of Political Economy* was published fifteen years after David Hume's essay *Of Public Credit* and nine years before Adam Smith's *Wealth of Nations*, but it failed to enjoy the same success in France. Nevertheless, Steuart's decisive influence on Etienne Clavière, the man responsible for the economic justification of assignats, turned his very belated discovery in France into a remarkable acquisition for French revolutionary thought.

Steuart and France

Having been exiled for seventeen years, Steuart was well acquainted with life in France. In 1754 he stayed in Paris and at Angoulême, where he had the opportunity to discuss finance with French members of parliament who had been exiled there in 1753.

Steuart's historical and evolutionist approach caused him to reject the mechanistic philosophy of natural order and the deductive methodology of the French (Macfie 1955; Sen 1957; Skinner 1962, 1965b), whom he blamed for an exaggerated tendency towards systems and for being insensitive to the multiple facets of reality (Steuart 1966:8).¹

Steuart denied the existence of an objective harmony between public interest and private interest. In this context, public credit had a balancing

effect on the economy, and at the same time formed the very area in which the presence of the State manifested itself (Steuart 1966:635ff.). Steuart devoted an entire book of the *Inquiry* to the analysis of public credit. His carefully comparative approach and his sensitivity to national peculiarities—as well as his direct knowledge of French realities—prompted him to make an extensive comparison between the situations of public credit in France and Great Britain.²

His aim was to show that by using its public debt, Great Britain had, in less than a century, surpassed the nation that was its rival and that now found itself forced to follow Britain's example to make up for lost time (Steuart 1966:615–35). He was convinced, however, that until the 1688 Revolution, France's financial situation had been better than England's, and that the differing management of public debt in these two countries was a result of their political regimes. The responsibility of the ministers vis-à-vis parliament in fact strengthened the confidence of the English people. In France, on the contrary, the arbitrary management of the tax system was detrimental to credit. The reason was the insufficiency of monetary circulation; this was due to the absence of a national bank, which, as in Great Britain, signified commercial credit.

Steuart's attention to social structures also led him to point out the absence of a mercantile tradition in France. This situation made it more awkward for the State to take the initiative of contracting a debt, thus throwing it on the mercy of bankers (Steuart 1966:478, 611). The inadequate reliability of the monarchy thus brought about a lack of public confidence in the credit of the State and an absence of awareness of the community of interests.

The failure of John Law's experiment, which was due to the interference of the Regent, bore witness to this situation. Steuart devoted twelve chapters of his work to the analysis of the System (Steuart 1966: chaps XXIII–XXXIV) emphasizing Law's ability to revitalize the French economy within two years—which proved the usefulness of public banks, as afterwards demonstrated by Melon, Savary and Dutot. It was public lack of confidence which led to failure, not the nature of the banknotes. Steuart thus stressed the theoretical inadequacies which impeded the organization of banks in France, for which he blamed Montesquieu, who had maintained that a national bank was incompatible with the monarchy (ibid.: 539).

The failure of the first translation of the *Inquiry*

The difficulties that arose in the publication of Steuart's works in France are in a way the most obvious proof of this resistance on the part of French economic culture. Indeed, the history of the first translation of the *Inquiry* reveals the slowness of the French public to familiarize itself with subjects of political economy. The former tutor of Steuart's son, Goguel, an adviser to the Duke of Württemberg at Montbéliard in the Franche-Comté, undertook

the translation, and Steuart himself, during the last years of his life, followed up the work and added more notes to it. Yet the translation was never published and, so far, the only evidence of its existence is the correspondence between Goguel, Lady Frances Steuart and the Société Typographique of Neuchâtel from 1781 to 1784.³ This correspondence bears witness to a failure, but at the same time reveals an obstinate intention not only to pay tribute to the memory of Steuart, but also to make his ideas known in France, as had been the wish of the Scottish economist.⁴

Goguel's aim was to publish an edition of Steuart's works which, in addition to *Recherches des principes de l'Économie politique*, included a plan for the *Uniformité générale des poids et mesures*, the treatise *Sur les monnaies de l'Empire* and a critique of Mirabaud's *Système de la nature* (Steuart 1759, 1761, 1770–9). Moreover, he wanted to add as a preface a biography of Steuart written by his nephew, Lord Buchan.⁵ One year after the economist's death, Goguel had finished his work and was waiting to be put in touch with the Parisian publishers through a French intermediary, Abbé Colbert.⁶

However, he was soon convinced of the difficulty of penetrating into the French market:

Since most publishers in Paris find it difficult to undertake the printing of this book at their expense, because, as they say, its subject is not within everybody's taste and scope, do you not think, Milady, that one might find about a hundred subscriptions both in Scotland and in England?⁷

In May 1782 the publication seemed imminent: the Société Typographique of Neuchâtel merely required a certain number of subscriptions. To respond to this need, Goguel proposed a cheap edition, destined particularly for the English and Scottish markets. Although translated into French, the text had the advantage of being richer and more complete than the English original:

I consequently hope that your bookshops in Edinburgh and London will willingly take on a hundred or two hundred copies, and that they will easily sell them in the Kingdom, despite their being in French, in view of the corrections and notes with which this translation has been enriched by our learned author himself. His own friends and the foreigners spread all over Great Britain will unquestionably hasten to purchase it. That is what you, Milady, may propose to some of your bookshop owners, who may gain a lot from it by doubling the price in their shops.⁸

Unfortunately, Goguel's hopes soon came to naught because Ostervald abandoned the project, feeling uncertain about the profits. The Swiss publisher's interest in the book was in any case rather slight, for in June

1781, he communicated his doubts to Goguel, mentioning another translation of the text by Morellet. Ostervald or his colleagues probably confused Steuart with Smith, an obvious reason for their reluctance to accept the *Inquiry*. Goguel nevertheless defended his priority rights:

I was extremely shocked by the news you were good enough to announce to me about the translation already made by M. l'Abbé Morellet. It is astonishing that Sir James Steuart himself and a large number of people with whom I am in touch in Paris are unaware of it. And it is even more astonishing that the main publishers of Paris have not even heard about it.... Since none of these gentlemen has heard about M. Morellet's translation, I take it that it has not yet been published. But whatever the case may be, and without my being able in any way to confront this learned man of letters, several outside reasons that are already known to you make me believe that mine will always be preferred as infinitely better.⁹

Disappointed with the French publishers, Goguel turned to the English market, looking for a French publisher in London. Once the English copies were out of print, the translation could be presented as a second edition.¹⁰ In 1783 all French contacts were broken off. After five or six years of fruitless steps on behalf of Goguel, the bookseller Guesfier justified his hesitation by asking himself 'whether what is good for the English Constitution would suit ours in this political field, whether the ministry will allow it to be printed and published in France'.¹¹ He also believed that the work, although its author was greatly appreciated in England, would have few readers in France because of the difficulty of the subject it dealt with.¹² 'He is I find poor man sadly at a Loss about his translation', wrote Lady Frances Steuart to Lord Buchan on 18 September 1783.¹³ Overwhelmed with grief and disappointment, Goguel nevertheless tried to find support from his English acquaintances until the end of 1784. He also approached Lord Buchan and Lord Elcho of Wemyss, Lady Frances's brother, in his desperate search for a Dutch or German publisher.¹⁴

On 8 October 1784, in his last letter, Goguel informed Lady Steuart that he had got in touch with the Société Typographique of Kehl, which said that its decision depended on the authorization of the margrave of Baden Dourlach. The silence of the Marquis de Montpernis, the margrave's chamberlain, to whom he had written, was the sign of yet another and ultimate failure.¹⁵

The French Revolution does justice to Steuart

It was the Revolution that finally discovered Steuart: The *Recherche des principes de l'économie politique, ou Essai sur la science de la police intérieure*

des nations libres appeared in five volumes between 1789 and 1790, edited by Etienne Sénovert.¹⁶ The promoter of this initiative—which was conceived within the circles of the *Société de 1789*—was Alexandre Vandermonde, who occupied the first French chair of political economy and treated Steuart's work as his gospel during his lectures at the *École Normale* in 1795:

It was translated in 1789, at my instigation. The translation was made by an Irishman who knew little French, but it was revised by a man of great intelligence. It was printed by Didot the elder, in five in-8° volumes. Stewart appears off-putting to anyone who tries reading him for the first time; he is difficult to read. Perhaps that is the reason for the lack of success he has had in England. I invite those who wish to delve into political economy to obtain this book and not to be put off by it.¹⁷

For Sénovert the aim of the translation was to promote knowledge about Steuart's thought, which had been overshadowed by Smith's. What is more, he believed that some of the arguments of the *Wealth of Nations* were directly derived from Steuart:

The *chevalier* Steuart has had the kind of honour that mediocrity cannot obtain: he has rarely been quoted, it is true; but he was often copied: Mr. Smith himself, in his very rightly celebrated work the *Wealth of Nations*, has, in the first three books, blended everything our author has said on the same subjects, but without going as deeply into them, since they are merely of secondary importance to his plan.

(Steuart 1789–90:1, v–viii).¹⁸

If Smith had developed a different way of thought in the last two books of his work, this was done only under the influence of the American war.

Concerned as he was about the relationship between reality and economic theory, Sénovert saw a twofold advantage in this translation:

The first will no doubt be to prove that the revolution happening before our eyes is in the nature of necessary things: we should therefore be less alarmed about the inevitable disadvantages of this kind of change, and admit that if a totally insane administration would have been unable to speed it up by ten years, the most enlightened and wisest one would not have been able to put it off for as many years either.

(Steuart 1789–90:1, ix)

The second advantage of the translation was to underscore the theoretical complexity of political economy, as against the French abstract approach, by pointing out the relationship between politics, economics and social reality. Sénovert also emphasized the inadequacies of the French economic language. He even admitted that in the course of his work he came up against difficulties in properly translating the term *monied interest*, which he rendered, depending on the circumstances, by *capitalistes*, *rentiers*, *intérêt de l'argent*, *intérêt des rentiers* or *prêt à intérêt*: 'usure [usury] is the only French word which corresponds with these different meanings; but today it only expresses the abuse of loan at interest which is banned by civil and canonical laws' (Steuart 1789–90:1 xi–vv).¹⁹

A Catholic monarchy, such as the French one, acted as a major obstacle against economic life as well as theoretical development. In Great Britain, already by the end of the seventeenth century, the question of interest ceased to be discussed from the point of view of legitimacy and was only debated with regard to its effects on the economy. In France the loan at interest was banned by the Catholic church as usury, even when the necessities of economic transaction made it inevitable (Lüthy 1961). As late as the eighteenth century, efforts were still being made in France to find a justification for loans that would not contradict religion, and this got in the way of working out an economic theory. In this context, we must not forget that when the first Discount Bank was founded in 1776, it was condemned by the Sorbonne as an institution practising usury.²⁰

The translation of Steuart's work subsequently made Sénovert take a deeper interest in financial matters. It was he, in fact, who was responsible for the first edition of the works of John Law, which appeared in 1790, a delay that similarly shows the resistance of eighteenth-century French economic culture against proceeding towards a theoretical reflection on these themes (Law 1790).²¹

At the same time, however, one can recognize the impetus coming from the theoretical and practical example of Great Britain. From John Law to James Steuart, it was in fact within the tradition of mercantilist practices that people started paying greater attention to monetary policy, to the circulation of money implying lower interest rates, to public credit and to the use of a circulation bank as a means to create wealth at the service of the Sovereign.²² The translation of Steuart's *Inquiry* and the first edition of Law's works—to which Sénovert wrote a *Discours préliminaire*, a short treatise about public credit explicitly inspired by Steuart²³—thus showed the aim of the Revolution to offset the influence of the trend of economic ideas ranging from the physiocrats to Adam Smith.²⁴

The opponents of public credit, banks and paper money found their source of inspiration precisely among the physiocrats and in the ideas of Smith, even if the complexity of the *Wealth of Nations* left it open to different interpretations. As a contrast to this representation of society ruled by a

natural and mechanistic order, the organic and vitalistic conception, which was present in the French tradition,²⁵ produced an original encounter with Scottish thought on the subject.²⁶

Within this framework, Stuart's revolutionary discovery nevertheless identified the will to reconcile interests and passions by means of public credit, providing an objective foundation for the relationship between public interest and private interest (Hirschman 1977). Stuart had attributed a positive effect to public credit and paper money and recognized the influence of monetary circulation on economic development. But over and above these positions, it was his evolutionist approach, firmly rooted in the historical way of thought of Scottish philosophers, that contributed to providing a theoretical foundation for the revolutionary debates that led to the creation of assignats (Skinner 1965a:1–22). An awareness of the relationship between the organization of the economy and changes in social structure, as well as acceptance of the active presence of the State in economic dynamics—these were Stuart's valuable contributions to the Revolution.

Etienne Clavière and Stuart

It was Etienne Clavière who reaped this heritage and used it in an argument that marked him as a publicist, confirming that he was not 'the secretary' of Mirabeau, as his opponents mockingly called him.²⁷ Indeed, his financial theories made a great impression in the pages of the *Courier de Provence*, a fact that also led to a temporary break with Mirabeau in early 1790.²⁸

With regard to the financial speculation after the creation of the Discount Bank in 1776, Clavière, like Isaac Panchaud—the promoter of the Bank—Mirabeau, Brissot and other Swiss compatriots, had been among the protagonists of the group who had gambled on a fall and, while following their own interests, had worked out an original set of principles of political economy. It was based on the abundance of monetary circulation, ensured by an institution that was able to guarantee the low price of money. This organism necessarily had to be independent, although under government control within a system of regulated freedom. This alone could build up public confidence in the State's credit.²⁹

In 1787–8 Clavière had already developed the political implications of these financial discussions and had broached the question about the defence of creditors of the State in *De la foi publique*, though this did not yet present a general political programme (Clavière 1788).³⁰ In June 1789 he published his *Observations d'un créancier de l'État*, one of the first accounts showing the originality of revolutionary reflection on public credit (Clavière 1789).³¹

Due to the gravity of the French deficit, the question of public debt was here approached as a starting point for a general political project of reforming the State: It is agreed that by defending their rights, the creditors of the State preserve public property' (Clavière 1789:1). For Clavière, the inviolability

of State creditors was not only an ethical requirement, it also followed from political and economic necessities. As a financial instrument, public credit aimed at debt amortization and the lowering of interest rates, in order to have positive effects on production (*ibid.*: 6–7). Simultaneously, Clavière grasped the relationship between public credit and economic development for the first time—with a clarity that had never before been attained in French thought and which was based directly on Steuart’s *Inquiry*.

There are verbatim references to prove it, although in his *Opinions* Clavière does not expressly quote his source, as he was to do elsewhere (Clavière 1790c: 413–30).

When resuming the same argument, Clavière did not consider the redemption of the debt as essential; on the contrary, the debt could lead to a strengthening confidence, because creditors of the State were more interested in receiving an annuity than in having their capital refunded (Clavière 1789:27; Steuart 1966:656). Like Steuart, Clavière pointed out the national peculiarities of France and Great Britain, emphasizing the absence of a French commercial tradition, which was responsible for the lack of familiarity with credit activities and hence for the bad management of the public debt (Clavière 1789:64; Steuart 1966:524ff.). From Steuart too came the conviction that the development of credit in Great Britain encouraged other nations to follow that country’s example, and to abandon wars and conquests in exchange for ‘industrial war, which is rich in happy effects’ (Clavière 1789:46–47; Steuart 1966:477).³²

Credit thus implied the progress of civilization. Among the ‘happy effects’, Clavière included the new principles of taxation, which called for ‘a constitution, since there has to be harmony between the laws that impose duties and those that ensure rights’ (Clavière 1789:48). This subordination of politics to the demands of the economy also reflects Steuart’s approach. Clavière’s most important acquisition was, nevertheless, the awareness of the correlation between trade, production and credit. However, this did not imply, as it did with Steuart, pursuing a protectionist policy, but was based on staunch economic liberalism:

Trade has established among all products, all industries, all currencies and all credits from all parts of the globe, relationships of such a kind that the price of things now follows laws which no government is in a position to limit in its own country.

(Clavière 1789:17–18)

Within the context of this appreciation of public credit and of the connection between credit and political stability, Clavière was also favourably disposed, in his *Opinions*, to the circulation of ‘papers that can replace money’ (*ibid.*: 29, 108). In the early summer of 1789, he thus already expressed the political and economic awareness that led to the creation of assignats.

Although he was spurred on by the example of Great Britain, Clavière, under the influence of Steuart, was also aware of the specific case of France, which led him to realize the inefficacy of the English model within the context of revolutionary reality. The absence of a commercial tradition on which to adjust loans made it necessary for France to use an instrument other than a national bank to solve its financial crisis (Clavière 1789:65). Scepticism about the Bank of England's universal validity as a model was a fundamental contribution to the revolutionary discussions:

when two Nations set off at such different periods as 1694, for the English Nation, and 1789 for the French Nation, how can one rely on the example of England to support the fact that a National Bank, whose affairs are intimately linked with those of the Government, that such a Bank, I ask, is necessary in France?

(Clavière 1789:51)

This attitude marked an important change in French thinking. From the mid-eighteenth century on, the French public had become acquainted with English economic authors and had broadened their knowledge about British reality. Great Britain and its Bank of England had thus become a model people sought to reproduce exactly in France. From the 1770s on, however, after the creation of the Discount Bank, they started to become aware of the specific nature of France, precisely with regard to the example of England. The acquaintance with a foreign model thus stimulated the development of political economy in France, a development directly related to its own economic, political and cultural reality.³³

In this context, there was a preliminary phase when the specific character of France was proclaimed by the opponents of a national bank and public credit. They pointed to the tradition of French absolutism, which prevented the kind of relations of mutual trust between rulers and subjects that were promoted by the republican liberties of the British parliamentary tradition. During a second phase, coinciding with the beginnings of the Revolution, the partisans of a modern management of the public debt, with Clavière as one of their most determined representatives, acknowledged the diversity of the realities in these two countries and decided that France should go its own way.

It was within this framework that Clavière managed to legitimize assignats.³⁴ It was he, in fact, who was responsible for the economic foundations of the new revolutionary money, while Mirabeau proclaimed its political foundations.³⁵ For Clavière, assignats were directly connected with public credit, which was 'as yet unknown in France', as an instrument used by the Treasury to serve the interests of industry. They were thus a response to the credit crisis (Clavière 1790d:2-4).

Clavière underscored the twofold advantage of this new money. On the

one hand, he recognized the strictly financial usefulness of the assignats, allowing the repayment of the debt without resorting to loans; and on the other hand, he related them directly to economic development by investing them with real influence on the activity of capitals, on a higher labour cost, on the rise of production and even on population growth (Clavière 1790a:210).

The tradition connected with mercantilist practices and their evolution, which proposed monetary circulation as against hoarding, formed the basis of Clavière's conviction that paper money could replace metallic currency, since the value of the latter depended on its circulation. By establishing a direct correlation between the supply and demand of merchandise, Clavière thus disagreed with the analysis of Hume, who had pointed out the influence of money on rising prices, which had weakened English competition abroad: It is not only through the price that you compete with foreign nations, but also through quantity. And quantity can only be the result of the abundance of money, whether fictitious or otherwise' (Clavière 1790c:428).³⁶

Steuart, who is expressly quoted here, which happened rarely in France at this period—as well as Smith, albeit after him,—provided Clavière with the most authoritative refutation of Hume, for their analyses emphasized the impetus given by paper money to industrial activities:

Sir James Steuart refuted him [Hume] completely, and after him Smith: Both of them added experience to reasoning. Look up their works and you will find everything that can show the influence of money, whatever it may be (as long as it is good), on the price of things.

(Clavière 1790c:429–30, cf. also 1790b:64, 109)

Clavière's arguments reflect the theoretical uncertainties of eighteenth-century economic culture, from John Law to the Revolution. He overestimated the effects of the increase in the quantity of money on productive activity, paying little attention to the rise in prices, conflicting with the quantitative theory of money. Although Clavière was aware of the need to limit issues,³⁷ he shared the conviction that the growth in the supply of money could be absorbed by the rising demand of money, without producing a very great devaluation. At the same time, although Smith had succeeded in assimilating profit and interest, he still accepted the monetary analysis of interest, contemplating an inversely proportional relationship between the quantity of money and interest rates.

It is nonetheless true that Clavière, also under the influence of reading Steuart, conceived assignats as the French response to the financial crisis which ended in the Revolution, making the new money as France's first attempt to establish public credit on the unity of the nation. The encounter between Clavière and Steuart is thus also a proof that assignats were not an

accidental response to the revolutionary crisis, but the realization of an economic and political project freed from any contingency and issuing from the economic culture of a cosmopolitan age.³⁸

Finally, it is interesting to note that at a period when, from the physiocrats to Adam Smith, the very foundations of classical economic thought were being discarded, there were at the same time, within the tradition of mercantilist policies, profound inquiries into subjects of economic theory. For a long time overshadowed by classical economy, these subjects included the central function of banks and interest rates; the dynamic role of public debt and money in economic exchange and development; and the presence of the State in a free economy by means of managed money.³⁹ The *Inquiry into the Principles of Political Economy* was the eighteenth century's last great reflection on these themes, and the French assignats, though doomed to failure, were its most remarkable achievement.

Notes

- 1 Modern historiography has offered this dynamic interpretation as opposed to the idea of Steuart as the last mercantilist, especially in connection with his reception in Germany (Chamley 1963, 1965). Apart from the works already mentioned, cf. also Akhtar (1978), Skinner (1985), Zampolini (1985). In fact there is no opposition between these two interpretations, for preclassical economic thought had an organic and dynamic image of society. It was within this context that money and credit were considered as essential elements of economy.
- 2 Between September and October 1780, a few months before he died, Steuart started a correspondence with Sir George Colebrooke about French finance. It is preserved in the Edinburgh University Library (*Chalmers Papers*, La. III. 5152, ff. 38–67) and at present forms the subject of one of my research projects.
- 3 Edinburgh University Library, *Coltness Papers, Lady Frances Steuart Denham—Goguel Correspondence* (henceforth cited as *CP*); Bibliothèque publique et universitaire de Neuchâtel, *Papiers de la Société Typographique*, Ms 1159, ff. 1–20 (henceforth cited as *ST*). There are also references to the translation in a letter from Steuart's wife to Lord Buchan: National Library of Scotland, Edinburgh, Ms 2956, f. 96, letter from Lady Steuart Denham to David Earl of Buchan, 18 September 1783.
- 4 In a letter to Ostervald dated 12 May 1781, in which he informed this Neuchâtel publisher of the final revision of the manuscript text, Goguel wrote: 'The translation will have a few additional notes that do not occur in the original and that the author has included in it' (*ST*, f. 1v). In the same letter Goguel also mentions the decision taken with Steuart to present the French edition in three volumes. Cf. also Goguel's letter of 29 October 1783 to Lady Frances Steuart, saying:

If, after the information you yourself could provide about the goodness and faithfulness of my translation, the notebooks of which have been revised by the incomparable author, as you know, some bookseller in this country would give me 100 or 150 *louis* for my manuscript and 50 copies, it's a deal.

(*CP*, f. 2)

- 5 The biography by Lord Buchan was published under the title ‘Memoirs of the Life of Sir James Steuart-Denham, Baronet, by the Right Hon. the Earl of Buchan’, in *Transactions of the Society of the Antiquaries of Scotland*, 1792:1 129–39.
- 6 CP, letter from Goguel to Lady Frances Steuart, 9 November 1781; letter from Goguel to Ostervald, 5 June 1781, ST, f. 3.
- 7 CP, letter from Goguel to Lady Frances Steuart, 5 December 1781.
- 8 CP, letter from Goguel to Lady Frances Steuart, 5 May 1782. There is also confirmation of the parts added to the French edition in a letter by Lady Frances Steuart to Lord Buchan dated 18 September 1783:

no doubt the English copy printed at London has the advantage over it of being in the language, but the French translation which has been corrected and illustrated since the English one was published with various notes and additions by the author himself, must have its preferable merit also, and the very moderate price and that so many people now read French with facility.

(National Library of Scotland, Edinburgh, MS 2956, f. 96)

- 9 Letter from Goguel to Ostervald, 5 June 1781, ST, ff. 3–3v.
- 10 CP, letter from Goguel to Lady Frances Steuart, 18 August 1782.
- 11 CP, letter from Guesfier to Goguel, 20 May 1783. The reference by the French publisher points to the fact that Goguel already had the intention of publishing the translation at the end of the 1770s.
- 12 CP, letter from Goguel to Lady Frances Steuart, 23 August 1783.
- 13 Letter from Lady Frances Steuart to Lord Buchan, f. 1.
- 14 CP, letter from Goguel to Lady Frances Steuart, 29 August 1783.
- 15 CP, letter from Goguel to Lady Frances Steuart, 8 October 1784.
- 16 On the genealogy of Etienne Sénovert, the reader is referred to the paper presented by Irina and Dmitri Gouzévitch (1995). According to M. Angliviel de Labeaumelle, Sénovert prepared a second edition of Steuart’s work, which was never published:

The general had a great number of works among his papers; I was commissioned to offer several of his manuscripts to various publishers, but they were not printed. The most important was a second edition of the translation of Steuart’s work, entirely revised and with a great number of notes added to it.

(Quéraud 1838:63)

- 17 *Séances des Ecoles Normales...*(1800:448). Vandermonde, who was a staunch anti-physiocrat, counted among his references, apart from Steuart, Clavière, the Marquis de Casaux, Hocquart de Coubron, de Pinto, Galiani, and, among English authors, Petty, Anderson, Child, Law, Young and Smith. On Vandermonde, cf. Hecht (1971), Alcouffe (1987), Faccarello (1989).
- 18 I am grateful to Ramón Tortajada for having pointed out to me that the library of the Faculty of Law in Paris has a copy of this work, in which vols I and IV are dated 1792, which has led to the hypothesis of a second edition of these two volumes (Tortajada 1995).
- 19 On the first attempt at devising an economic language in French, represented by A. Morellet, *Prospectus d’un nouveau dictionnaire de commerce*, Paris: Estienne, 1769, cf. Albertone 1990.

- 20 Cf. *Mémoires secrets pour servir à l'histoire de la république des Lettres en France*, 2 May 1776, t. IX:100.
- 21 The edition edited by Sénoverl included: *Considérations sur le numéraire et le commerce*; *Premier Mémoire sur les banques, présenté, à son Altesse Royale Monseigneur le Duc d'Orléans, Régent de France*; *Second Mémoire sur les banques*; *Lettre Ière à son Altesse Royale Monseigneur le Duc d'Orléans, Régent de France*; *Lettres IIe–Xe*; *Observations sur l'établissement de la Banque*; *Lettres XIe–XVe*; *Lettre à Monseigneur le Duc de Bourbon*; *Fragments*. Cf. the review published in the *Chronique de Paris*, n° 339, 5 December 1790, p. 1353.
- 22 On the complexity and validity of the concept 'mercantilism' in current historiography, the reader is referred to Magnusson 1994.
- 23 Sénoverl was also the author of a work on assignats (1790) and taxation (1825).
- 24 Through their dislike of public credit in favour of the exclusive productivity of agriculture, the physiocrats had their place among those who were responsible for the slow familiarization of the French with credit economy (Albertone 1992a:225–35). On the complexity of Smith's arguments, used either by his adversaries or by the partisans of public credit, banks and paper money cf. *ibid.*: 314–19.
- 25

In the community of men, civility can be learnt, the desire to give pleasure in order to receive it is kindled; and, neither more nor less than as among bodies of animals all the parts are alive, are nourished, and derive spirit and movement from the relationship they have with one another, in the same way men in their society remain united and joined.

(Montchrétien 1889:22)

- 26 It is true that the revolutionary debates still mentioned British authors who were regarded as references during the discussions about public credit in the 1770s and 1780s, from Petty to Davenant, Child, Price and Hume.
- 27 Cf. *Les Actes des apôtres*, n. XIX:17.
- 28 On the relationship between Clavière, Mirabeau and the group who were the protagonists of the financial discussions and speculations in the 1770s and 1780s and from whose midst issued the legitimation of assignats, cf. Bénétruy (1962).
- 29 On the political implications of French discussions about public debt and fiat money, from the creation of the Discount Bank in 1776 to the Revolution, cf. Albertone (1992a).
- 30 Clavière wrote this pamphlet in the context of a discussion with Brissot and Linguet on the foundations of public credit and the legitimacy of debt refunding (cf. Albertone 1992a:144–56).
- 31 Cf. the very positive review in the *Courier de Provence*, 24, 17–18, August 1789:12–19.
- 32 The original source of this image was probably *Dei delitti e delle pene* by Cesare Beccaria, which says: 'il commercio si è animato all'aspetto delle verità filosofiche rese comuni colla stampa, e si è accesa fralle nazioni una tacita guerra d'industria la più umana, e la più degna di uomini ragionevoli' (Beccaria 1973:10).
- 33 On the beginnings of a specifically French economic reflection, in the course of the eighteenth century, about the problem of public credit, cf. Albertone (1994:127–45).
- 34 Mirabeau also acknowledged Clavière as 'the author of assignats' (cf. Mirabeau 1851:2 155–6).

- 35 On the assignats being considered as a result of the financial discussions of the years 1770–80, rather than simply as a measure imposed by the revolutionary emergency, cf. Albertone (1990:345–441).
- 36 Cf. Hume (1955:34–6).
- 37 In late 1791 Clavière, together with Brissot and Cambon, was among the partisans of a limitation of paper money. On 5 November he proposed to the Assemblée a temporary suspension of the repayment of debts, realizing the need for a precise evaluation of the public debt, which had never been carried out, although many times called for (cf. Clavière 1791:12–13).
- 38 On this interpretation of assignats, which departs from the traditional historiography of the French Revolution, cf. Albertone (1992b:87–104).
- 39 Hutchison (1988).

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THE MARKET ECONOMY AND SOCIAL CLASSES IN JAMES STEUART AND G.W.F.HEGEL

*Dominique Caboret**

The purpose of this chapter is to reassess the theoretical links between Hegel and J.Steuart in their analyses of the social structuring of the market economy.¹ We know from Rosenkranz (1844:85) that Hegel devoted three months' careful study to Steuart's *An Inquiry into the Principles of Political Economy*, which was published in London in 1767 and translated into German in two editions, and that his various economic and social observations on the Scottish author's principal work were published in a *Commentary* that has now been lost. There is no other explicit reference to James Steuart in Hegel's work, whereas Smith is mentioned twice, first in his analyses of the division of labour and second with J.B.Say and Ricardo in the famous passage in the *Philosophy of Right* that celebrates political economy (*die Staatsökonomie*). Beyond this absence of explicit references, the question of any parallels between the two thinkers remains open. Thus Chamley (1963, 1965b) stresses the decisive influence of Steuart in the general development of Hegel's political philosophy, while others (Fradin 1993) suggest that his influence made itself felt more specifically in Hegel's analysis of the relationships between the State and civil society, with Steuart's statesman seeming to foreshadow Hegel's rational State. For Ritter (1970), the originality of Hegel's economic thinking lies rather in his critique of classical political economy, and he considers Steuart's influence to have been relatively unimportant.

In so far as political economy played a major part in the development of Hegel's practical philosophy from his very early writings onwards, it seems essential to understand the way in which the German philosopher interpreted

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economists' arguments and incorporated them into his own philosophical system. There is no doubt that it was through Steuart's work that Hegel discovered political economy. Through Steuart's historical and genetic approach, Hegel was led to recognize the historical necessity of the technico-economic order and its importance in the constitution of the political community. Moreover, the differentiation of an autonomous commercial order within the State meant that new functions had to be allocated to the State in order that market relationships could be regulated in the name of the community.¹ Steuart's notion of social control is reflected in the notion of external administration in Hegelian civil society. Moreover, Steuart's analysis of the extension of market relationships and the monetization of the economy was the starting point for the development of Hegel's 'system of needs'. The role Steuart ascribes to monetary relationships and to the merchant class in economic expansion was a decisive influence on the development of Hegel's social philosophy.

Our subject here is the theoretical affinities that link the two authors; we shall focus in particular on their analyses of the social division of labour and the social structure to which it gives rise within the market economy (Waszek 1988). Thus our objective is to understand the way in which individuals, seen not only in terms of their activities and particular needs but also in terms of their values, are distributed among a range of different social functions, denoted in Hegel's work by the term *Stände* [estates]² and in Steuart's by the term classes. It is indeed at this level that we can both assess the extent of Steuart's influence on Hegel and observe the way in which the economist's insights were reinterpreted in the philosopher's thinking. It is true that there is no single theoretical line of descent linking Steuart's work with the Hegelian doctrine of estates, which was subject to many other influences. Hegel was considerably indebted, for example, to the Prussian General Code of 1794³ (and more generally to the reality of Prussian society), as well as to the Napoleonic constitutions and the institutions derived from them (Rosenzweig 1991:139, 188, 320). Having emphasized the extent to which the tripartite division of the estates developed by Hegel, with its internal distinctions (this tripartite division was subject to considerable modification between Hegel's Jena period and his final period in Berlin), has certain similarities with Steuart's notion of class, we will focus our analysis on each author's concept of the social structure of the market economy.

The social division of labour and the social structuring of the market economy

The notion of estates underwent constant theoretical redefinition in Hegel's thought. These changes were due essentially to the difficulties Hegel experienced in incorporating the insights of English economists into his political philosophy, and due more specifically to the problems he had in

acknowledging a depoliticized commercial order within society that conflicted with a political concept of society still based in part on the ideal of the Greek city. For Hegel, therefore, the notion of estates was an expression of the tension between the normative ideal of the Greek city and the reality of the commercial order. It was within this framework that Hegel evolved from an ethical and political conception of social estates towards an economic understanding of them.

Even in his very early writings, Hegel has a tripartite view of the social structure, with one estate devoted to the public good and one bourgeois and one peasant estate. However, this tripartite division seems to be inessential, and the distribution of individuals into estates is fundamentally dualistic. Hegel's purpose, and in this he takes his authority explicitly from Aristotle, is to divide the people in any given society into those individuals who fulfil themselves in the public or political sphere and those who belong, directly or indirectly, to the economic sphere.⁴ Thus, on the one hand, there is an estate of free men who devote themselves essentially to warfare, philosophy and government and, on the other, an estate of non-free men, divided into bourgeoisie and peasants, who devote themselves to economic activity.⁵ The various elements of the civil society of the future are, therefore, gathered together in one particular class, whose purpose essentially is to serve the State and to meet the needs of the noble class. Moreover, the division into estates takes place in an ethical way, and is not determined by economic circumstance. Hegel's purpose is to distinguish between the various ethical virtues of a people and to objectify them socially in particular estates.⁶ This dual structure, which has its roots in the Aristotelian tradition, was maintained until the *Philosophy of Mind*, published in 1805. Indeed, although he had been reading economists, particularly Steuart, since the beginning of his time in Frankfurt, Hegel's definition of the estates was ethical and political rather than social and economic. Within this framework, however, the economic content of the social estates was gradually confirmed and became more complex as Hegel's thought developed (the bourgeois estate was divided into artisans, manufacturers and merchants, with the last-named becoming an estate in their own right in the *Philosophy of the Mind* of 1805–6). Furthermore, the underlying hierarchy tended to be flattened out over time: the universal class, at the apex of the social structure in the *System of Ethical Life* is ranked after the estates engaged in production in the *Phenomenology of the Mind* of 1805–6 and was henceforth to be placed alongside the military class, businessmen (*Geschäftsmänner*) and civil servants.

It is only in *The Principles of the Philosophy of Right*, which for the first time makes a clear analytical distinction between civil society and the State, that the various estates are incorporated into the system of needs (i.e. the system of production and exchange). Although their content and definition had not been significantly changed, they were to be structured henceforth in accordance with economic life. The differentiation of the social structure

into estates, which is outlined in a section entitled ‘Wealth’, which follows immediately upon the analysis of the division of labour, is based directly on the functioning of the market economy. Just as general wealth is the product of a system of mutual interdependence created by the division of labour and the exchange economy, so the estates reflect the division of social wealth and of the productive activities that create it into specific spheres of activity. It is in this sense that the estates constitute socio-economic groups that form a ‘specific base of subsistence’ within the system of needs (Hegel 1988:304):

The infinitely complex, criss-cross, movements of reciprocal production and exchange, and the equally infinite multiplicity of means therein employed, become crystallized, owing to the universality inherent in their content, and distinguished into general groups. As a result, the entire complex is built up into particular systems of needs, means and types of work relative to these needs, modes of satisfaction and of theoretical and practical educations, i.e. into systems, to one or other of which individuals are assigned—in other words, into class divisions.

(Hegel 1952:130–1)

Strictly speaking, this is a social division of labour into spheres of activity, with each sphere corresponding to a particular stage in the production of general wealth (Marcuse 1968:250). Furthermore, this categorization of the social estates follows a progression based on the degree of universality of the need to which they correspond in the social process. Thus the peasant immediate estate is succeeded by the estate of industrial acquisition, itself subdivided according to the degree of generality of need into the artisan, manufacturer and merchant estates, and finally the universal estate that works directly for the State through the ‘satisfaction of collective needs’ (Schwob 1988:86). Individuals are distributed among the estates in accordance with their mode of participation in the general wealth.

It is here that Stuart’s influence is decisive. His analysis focuses essentially on the social dimension of the division of labour and describes commercial society as a system of interdependent sectors and spheres of activity. Very close in this respect to Cantillon and the physiocrats,⁷ Stuart’s starting point for analysis of the social division of labour is a fundamental sectoral division that distinguishes between two principal classes of people—farmers and free hands:

We find the people distributed into two classes. The first is that of the farmers who produce the subsistence, and who are necessarily employed in this branch of business; the other I shall *call free hands*; because their occupation being to procure themselves subsistence out of the superfluity of the farmers, and by a labour adapted to the

wants of the society, may vary according to these wants, and these again according to the spirit of the times.

(Steuart 1966:43)

Farmers' participation in agricultural production provides them with a subsistence income while at the same time producing an agricultural surplus on which the free hands class lives through the exchange of a monetary equivalent. The free hands are themselves subdivided into two types of classes. Steuart makes a distinction between those individuals with direct access to the agricultural surplus: those who, like the landowners, already own that surplus or have a money income (moneyed interest), and those whose access to the agricultural surplus is mediated through labour.⁸ However, since landowners appear only as consumers of luxury goods, Steuart seems to be of the opinion that the second category, made up of industrious workers, is the only significant group making up the free hands class (Steuart 1966:57). Thus farmers in the agricultural sectors and workers in the manufacturing sector constitute the two principal social classes. This differentiation of the social structure, which appears in its basic outline in Book I, is developed further with the appearance of the merchants. This social group, to whom we shall return later, is the class engaged in commercial activity (Steuart 1966:57).

Hegel follows Steuart's example by making the definition of the various stages of social production the principle by which the social structure can be made intelligible. Thus the economic sphere is articulated around three principal types of activity that reflect the process of monetization of the economy. Moreover, Hegel seems to have had the same difficulty in explaining the emergence, whether in the agricultural or 'industrial' sector, of a new social class that made use of capital and employed waged workers and was defined in terms of the profit it made as a proportion of capital advanced. This undoubtedly represents a step backwards from the differentiation of the social classes as conceived by Smith: the social structure is not defined by the distribution of income, which would make it possible to distinguish between landowners, waged workers and capitalists on the basis of the type of income they receive. This absence of distinction between profit and wage is reflected in the confusion between waged workers and capitalists in both authors. In Steuart's work, this confusion arises out of the author's definition of profit which, to use Steuart's term, is profit upon alienation, that is profit produced by exchange relationships but not linked to capital invested in production. While this profit is clearly defined in the case of the commercial class, since it is directly linked to its commercial activity, there is a confusion in the case of manufacturers between profit and wages.⁹ As Tortajada points out, 'the forms of remuneration listed by Steuart do not include the relationship between wage-earner and master or that between wage-earner and capitalist' (Tortajada 1993:17). Thus, in Steuart's definition, those

engaged in agricultural and industrial production are independent producers who own their own means of production. Within this framework, waged workers receive only an incidental mention. Hegel's response in this respect is almost equally unsatisfactory. It is true that he does on several occasions make a distinction between industrial producers, master craftsmen, journeymen and 'a man who is prepared to undertake casual employment on a single occasion' (Hegel 1952:153). However, these fleeting references are not sufficient to efface the general picture that emerges from Hegel's writings, namely that the 'industrial' class includes all artisans and manufacturers, who own their own means of production and use them to produce objects of consumption on a greater or smaller scale.

Moreover, while Hegel makes several references to the notions of profit and wage, these concepts are used in an indeterminate and ambiguous fashion.

The agricultural class, the industrial class and the system of needs

The way in which Hegel incorporated the insights of English economists into his own thinking was determined by his own philosophical project and by the historical and social reality of contemporary Germany. Thus Hegel's concept of the estates reflects a phenomenological approach that seeks to develop the universal from the particular, as well as a rejection of the notion that certain ancient forms of agriculture had been transformed into capitalist forms of production. In philosophical terms, therefore, Hegel followed Stuart's analysis very closely, while at the same time adopting a very different position with respect to agriculture. Thus he contrasted the concrete labour of a peasant with the abstract labour demanded by industry and commerce; this contrast reflects the shift from the relationship to nature towards market relationships, of which commercial society was the ultimate expression.

Thus, for Hegel, the agricultural estate is the natural base of civil society: made up of peasants and landowners, the agricultural estate 'has its capital in the natural products of the soil it cultivates' (Hegel 1952:131). It constitutes, in the literal sense of the term, the substance of the State, since it is its historical basis and provides society with its means of subsistence. For Hegel, however, the agricultural estate exists on the margins of the system of needs, both because of the nature of the labour it involves and because of the particular position it occupies within the social structure. Agricultural labour is subject essentially to nature. It is 'concrete' labour, 'not creative or transformative' (Hegel 1972:64), which owes its production, its yield and its wealth to the laws of nature and the arbitrariness of natural conditions. Through cultivation of the land, nature becomes part of human labour while at the same time remaining partly alien to it: the peasant does

not himself produce but rather allows the object to be produced by nature; ‘only possibility is at work’, as Hegel puts it (1984:270). This form of labour produces the peasant mentality: having developed a relationship of trust with nature, he is not subject to the profit motive.¹⁰ While it is true that peasants provide society with subsistence goods, as well as with raw materials to which the labour of industrial workers can be applied, the goods they produce are not destined primarily for the market. Thus, for Hegel, the peasant estate is defined primarily by its relationship to nature and only marginally by its relationship to the system of needs that lies at the heart of the market economy and commercial society. In its natural simplicity and patriarchal way of life, the peasant estate is not subject to the differentiation and proliferation of needs that characterize the second estate in particular.

This concept of an agricultural sector characterized by a high degree of subsistence production and a low level of dependence on market relationships (Denis 1989:135) differs from the theoretical perspective adopted by Steuart. For him, the specificity of agriculture in modern societies lies in the fact that it is ‘exercised as a trade’ (Steuart 1966:117) and not as a means of subsistence for farmers. Agriculture’s function in society is, therefore, to create a surplus for market exchange in order to satisfy the effective demand of those with no connection to the land.¹¹ Thus the development of commercial society requires the agricultural sector to adjust itself to the manufacturing sector, or at least that both sectors should develop in such a way as to ensure a suitable structuring of mutual needs (Perelman 1983:478).

On the other hand, both authors ascribe a similar status to the ‘industrial’ class, and have a similar social and historical understanding of the free ‘industrial’ producer. He is no longer in a state of personal dependence, like that of a slave vis-à-vis his owner, but rather in one of social and impersonal dependence on the market.¹² Hegel describes the ‘industrial’ estate as the sphere of abstract labour, the contingent sphere raised by its own laws of necessity. The exteriority of nature here becomes the converse of human activity, and the social relationships that are created are subject to no constraints other than those produced by their own inherent tendency towards differentiation. The bourgeois estate, which from Steuart’s perspective culminated in the figure of the merchant, is in Hegel’s thinking the driving force behind the differentiation and activation of the system of needs. The access a producer has to the monetary equivalent means that he is engaged in the continuous creation of new needs in order to encourage the wealthy consumer to spend. In a characteristic inversion of ends and means, the introduction of market exchange into production relationships renders the aims of production autonomous. For Hegel, as for Steuart, the consumer is the means by which the producer can gain access to the general equivalent, and ingenuity or the creation of new needs by the producer is the device

employed in order to achieve this ultimate goal: 'it is intelligence that is the essential element' stresses Hegel (1986:227).¹³

The merchant class and monetary enrichment

Steuart's concept of the market economy owes its originality to the central position occupied by the figure of the merchant. Through his role as intermediary between producer supply and consumer demand, the merchant follows the development of monetary exchange; to be more precise, he becomes the agent of that exchange in a specific process of enrichment represented by commercial profit. This central figure in Steuart's concept of the market economy is of fundamental importance to our argument. In his doctrine of the estates, Hegel ascribes a central role in the constitution of the market economy to the merchant class. The theoretical principles by which it is defined and the analytical position it occupies in the writings of his Jena period make it absolutely clear, in our view, that Hegel's definition of the merchant class follows very closely in Steuart's theoretical footsteps. There are three key elements in this theoretical parallel: the correlative introduction of the merchant and of money, with the former representing the circulation of money; the merchant's function as intermediary between manufacturing industry and the consumer; and, finally, the role played by the merchant in the process of monetary enrichment.

Steuart introduces the notion of trade, taking great care to distinguish it from exchange. While barter is a form of exchange that takes place within a limited circle of needs, trade, in contrast, is an expression of the transition towards a developed economy. There are two basic requisites for its historical development: the presence of money as 'an equivalent, proper for supplying every want' (Steuart 1966:146) and a taste for 'luxuries' among the owners of that equivalent. However, money, introduced to facilitate exchange, is not sufficient to define trade. In order to develop fully, trade requires not only the emergence of needs and of manufacturing industry but also the appearance of a 'set of men' ready to take on the task of collecting and distributing the products of industry (Steuart 1966:223). Thus, for Steuart, with monetary exchange alone,

we have here no idea of trade, because we have not introduced the merchant, by whose industry it is carried on. Let this third be brought into play, and the whole operation becomes clear. What before we called wants, is here represented by the consumer; what we called industry, by the manufacturer; what we called money, by the merchant.
(Steuart 1966:156)

By standing for money, therefore, the merchant becomes the agent of monetary circulation. He expresses the social unity of all individual aims,

just as money serves as the means of social mediation between goods by acting as the universal measure of value and as a general equivalent. The originality of the merchant class in Steuart's concept of the market has often been remarked upon.¹⁴ Specific agents in their own right, quite distinct from both producers and consumers, merchants introduce trade as a 'third principle' between the output of manufacturing industry and the final consumption of that output. Their presence makes possible two types of exchange, that between merchants, on the one hand, and that between merchants and non-merchants, on the other. However, if the merchant class basically fulfils a social need—a principle of general utility, according to Steuart—by making the task of mediation between production and needs an activity in its own right, its specific aim remains monetary enrichment. According to Steuart, 'trade and commerce are...a scheme invented and set on foot by merchants, from a principle of gain' (Steuart 1966:158). It should be noted that, as soon as it is introduced into society, money becomes 'an universal object of want' (Steuart 1966:156). For Steuart, money, a common object, desired by all, pushes back the limits of the subsistence economy by stimulating the ingenuity of the industrious and increasing needs among consumers. Money creates an opportunity to improve the condition of each individual and of society in general. Nevertheless, while merchants are the means through which this opportunity is created, their role as intermediaries is not sufficient to define them. They are also the embodiment of the desire for money, in so far as money constitutes both a means and an end for that community. Thus the desire for enrichment made possible by monetary exchange can be realized only by the merchant class, since its activity is based on a process of monetary accumulation (Steuart 1966:153). In fact, the merchant community is the generic representation of the market, purchasing in order to resell, with the rational aim of making a trading profit.

The figure of the merchant (*Kaufmannstand*) occupies a singular position in Hegel's doctrine of the estates. Having been ignored in the *Natural Right* of 1802, it appeared as a separate category in the bourgeois estate in the *System of Ethical Life*, and finished by constituting a separate estate in its own right in the *Philosophy of Mind* of 1805. Finally, in the *Principles of the Philosophy of Right*, it was reincorporated into the industrial estate as one of three subdivisions. These shifts in Hegel's definition of the social structure should not, however, deceive us; in reality, there is a profound continuity in the analytical definition of the merchant estate over the course of these various works.

Just as Steuart sought to demonstrate—from both a logical and a historical perspective—that the introduction of the merchant was analogous to that of money, Hegel views the emergence of the merchant and that of money as correlative. It seems to us necessary at this point to investigate the philosopher's reasoning more closely in order to clarify our own argument.

In his analysis of the forms of economic life, Hegel seeks to show that the social division of labour necessarily involves a change in the nature of the product of labour. Thus, as activities become increasingly differentiated, labour is no longer intended to satisfy the individual needs of the producer but takes on a general character in order to satisfy the needs of others. In other words, the sole purpose of labour now becomes the production of goods for exchange. In its purely quantitative form, therefore, the product of labour becomes surplus and acquires a universal character linking it to use or needs in general. Moreover, the process whereby production becomes abstract must apply also, and symmetrically, to the process of consumption. If a producer produces goods that he does not consume, he must also consume the surpluses produced by others. From this point of view, Hegel describes exchange as the act that makes possible the ‘circulation of the surpluses’ (Gérard 1982:220) produced by the various producers and the satisfaction of their respective needs. However, the form of exchange considered here remains restricted without the introduction of money. In order that production and consumption can become abstract, as production for a general need, on the one hand, and as consumption of a general product, on the other, the exchange relationships thus defined must be raised to the level of a social totality.

According to Hegel, it is the introduction of money and of trade as an activity in its own right that makes it possible to achieve this social totality.¹⁵ Monetary exchange and trade are, therefore, the two constituent principles on which an economic sphere of total mutual interdependence can be built:

The surplus set into indifference, as something universal and the possibility of [satisfying] all needs, is *money*...Just as money is the universal, and the abstraction of these needs, and mediates them all, so *trade* is this mediation posited as activity, where surplus is exchanged for surplus.

(Hegel 1979:125)

Hegels interpretation of the function of trade, informed as it is by Stuart’s writings, unfurls in the course of his analysis of social structure. In his analytical framework, merchants clearly emerge as the agents of monetary exchange, mediating between the general supply of products on the one hand and consumers’ needs on the other. As the representative of money and the agent of monetary exchange, the merchant estate makes possible the social unification of the market economy:

The universality of labor or the indifference of all labor is...money. So too...the active universal exchange, the activity which adjusts particular need to particular surplus is the *commercial* class.... What it produces is to take over the surplus available in particular activities

and thereby make it into a universal, and what it exchanges is likewise money or the universal.

(Hegel 1979:154)

In *The Philosophy of Mind*, Hegel raises merchants to the status of an estate in its own right, separate from the manufacturing class. It seems to us that there are two fundamental reasons that might explain this theoretical development. On the one hand, it seems that Hegel succeeded in clearly defining the merchant category as specific agents representing monetary exchange. The merchant becomes the central figure in the market, quite distinct from the producer or the consumer. Thus, ‘the merchant’s work is pure exchange, an act of production and creation that is neither natural nor artificial—exchange is the movement...that is free from both use and the needs of labour...’ (Hegel 1984:273). On the other hand, Hegel henceforth explicitly locates the merchant class within a process of monetary enrichment. Commercial profit, which could only appear as a supposition in the *System of Ethical Life*, is now clearly identified by Hegel as the distinctive purpose of the merchant class. This aspect can be highlighted by the way in which Hegel distinguishes the industrial producer from the merchant. For the ‘bourgeois manufacturer’, money is the means whereby, through the mediation of his own labour, he can improve his material and social condition. For Steuart, as for Hegel, money, from the producers’ perspective, essentially represents a principle of emulation. In other words, it is not money per se that is the desired end, but rather social success or, more precisely, the actualization of that success in the consumption of luxury goods. For the merchant, on the other hand, both Hegel and Steuart agree that: ‘acquisition and possession become of equal significance’ (Hegel 1984:272). What the merchant is seeking through his activities is money, ‘that great invention’ (Hegel 1984:273), which is the only thing that, for him, has direct utility. Thus with the emergence of the merchant, ‘the notion of having attained the status derived from his estate disappears...—it is (not) the estate as such that is henceforth to be prized, but the reality of possession for its own sake’ (Hegel 1984:272–3).

Like Steuart (and Aristotle), Hegel saw the link that develops between the desire for money and money itself as soon as money comes to represent general wealth and is sought after as a universal good. But, according to Hegel and not to Steuart, when money is desired for itself and no longer expresses the unity of the need that individuals have of each other, then it introduces the affliction of unlimited accumulation into the economy. It is precisely the process of monetary enrichment of which merchants are the agents which leads to the *mauvais infini* and the end of ethical life. Through their acquisitive rationality and the monetary exchange of which they are the agents, merchants turn (‘concrete’) work and the specific characteristics of goods (‘use values’) into abstractions:¹⁶

Thus the mentality of the commercial estate is this understanding of the unity of the *essence* and the *thing* itself—a person is real to the extent that he has money;...the *essence* of the thing is the thing itself—*Value* is hard cash...this money...is the abstraction of all particularities, or all individual characteristics etc., of all recognition of singularity; the mentality (of the merchant) is this hardness of mind, in which the particular, now completely eliminated, no longer has any value—strict *right*—the bill of exchange has to be honoured, irrespective of what is sacrificed, family, well-being, life, etc.—total absence of pity—The very existence of manufactured goods is based on the misery of a class.

(Hegel 1984:273)

The culmination of the social structure in the figure of the merchant reveals the profound influence of Stuart's economic analyses on Hegel, putting into context that of Smith, if it is accepted that one of the fundamental purposes of the classical economists was to divorce exchange from mercantilist statements on the desire for money.¹⁷

Nobility and the virtue of the warrior

Analysis of social differentiation in the market society in Hegel and Stuart does not exempt us from studying the paradoxical status occupied by the nobility in the thinking of both authors. Much attention has been paid to the fact that both Stuart and Hegel perceived with great acuity the transition from feudal society to modern society through the mutually complementary emergence of commercial society and modern freedom. While Stuart developed his understanding of this transition by studying the new forms of economic dependency and political subordination to which it gave rise (Stuart 1966:59–73 and 206–17), Hegel, in the *Phenomenology of Mind*, perceived the disappearance of feudal society in terms of a dialectical relationship between the power of the State and wealth.¹⁸ While both authors accepted without dispute the 'revolution' that was taking place before their very eyes—the shattering of the social structure and of the power relationships derived from it by the unprecedented expansion of commercial society—it is nonetheless the case that, in conceptualizing this transition, both authors were following in the wake of what, since Pocock, has been called the tradition of the civic paradigm. From this perspective, it is possible to understand the attention paid by both authors to the declining power of the nobility and their evident concern to integrate and acknowledge the existence of landowners within the social structure (Waszek 1988:178–9).

Although Hegel includes them in the peasant estate and Stuart in the free hands class, landowners do not seem truly to belong to either of these

classes, and their only significant appearance is as unproductive consumers. However, the nobility tends to be the foundation on which the State rests, and in that sense runs counter to the pursuit of private interests. For both authors, the social esteem accorded the nobility is structured by the distinction between the values of the ‘warrior’ and those of the merchant. Periods of peace are given over to the acquisition of factors of production, during which the mercantile spirit prevails as a result of the expansion of industrial and commercial activity and monetary operations. During such periods, the nobility is eclipsed and socially undervalued; in times of war, however, its military virtues can prevail.¹⁹ Faced with the bourgeoisie’s fear of death, the nobility finds its true social role in the defence of the nation. Thus the eclipsing of the nobility in economic relationships is offset by the esteem in which its spiritual qualities are held by the two authors. Both praise the nobility’s martial spirit and insist that it serves ‘as a bulwark to virtue, against the allurements of riches’ (Steuart 1966:70). Thus in *Natural Right* and the *System of Ethical Life*, Hegel extols the nobility’s commitment to the ‘work of war’ (Hegel 1992:165), while Steuart exhorts the statesman to use each class in accordance with its spirit and therefore to ensure that the nobility devotes itself fully to military activity.²⁰ However, the rehabilitation of this figure from the past was to be scarcely tenable for either author. And buried beneath the surface of each author’s work is a growing recognition of the need for landowners to undergo a social transformation in order to bring them into line with the economic exigencies of modern times. Here, however, the paths taken by the two authors diverge. While Steuart calls on the nobility to commit itself to capitalist agriculture (Perelman 1983:475), Hegel incorporates them into the universal class²¹ of the legislative power and accords them a specific place in political life.

Conclusion

Interpretative tradition has tended to make Smith and Ricardo the two major influences on Hegel’s social philosophy. While it is rightly acknowledged that it was from those two authors’ works that Hegel formed the idea of conceiving the commercial order as a system functioning in accordance with its own immanent laws, that tradition does tend to underestimate Steuart’s influence, thereby nurturing the idea that Steuart is a backward-looking figure brushed aside by the classical revolution in the very heart of Hegel’s philosophy. On the contrary, it seems to us that Hegel’s reading of Steuart was decisive in shaping his understanding of economics and that this influence manifests itself particularly in the economic basis of his conception of social structure. Thus the concept of the estates traces the development of the abstraction that is specific to market relationships and culminates in the figure of the merchant who, as the representative of monetary circulation, gives society its unity. For both authors, the ‘industrial’ class is the principal

factor in the activation of the system of needs, while money and the merchant class constitute the organizing force of commercial society.

Moreover, Hegel was undoubtedly sensitive to the organic concept of society that is evident in Steuart's thought. For the Scottish author, social differentiation cannot be based solely on market relationships, since this would lead to social chaos. Thus the rational organization of society requires the intervention of politics in the structuring of the social classes. The organization of private individuals into social classes is a fundamental response to the need for social cohesion, a necessary counterpoint to the random fluctuations characteristic of market exchanges. It was on these grounds that Steuart described the distribution of individuals into social classes as the most difficult and important task facing the statesman. The political rationality imposed by the State on the commercial order is as much a response to economic exigency as to a need for social cohesion and the establishment of equilibrium between the various interest groups.²² Ultimately, the objective is to mould commercial society into a well-structured organization, the various members of which contribute in a differentiated way to a unified, politically defined goal. From this point of view, the process of social structuring reflects the refusal of both authors to conceive of society primarily as a purely open system composed simply of individuals interacting with each other. Such an atomistic vision is replaced by the notion of a people, seen, in the spirit of Montesquieu, as an organic, concrete whole.

However, these parallels should not be seen as anything more than a methodological kinship since, over and above the influence exerted by Steuart, Hegel's concept of the economy is determined by his own philosophical project and the social reality of the country in which he lived. Hegel's purpose was defined by his desire to integrate the economic relationships of an ethical and political concept of life in society. In this sense, the political sphere is not perceived solely in its interventionist dimension but also as the intended purpose of certain individuals, and it is as a means of resolving this problem of articulating the social and political spheres that his doctrine of the estates has to be understood. Although they are the product of the process of functional differentiation within commercial society, they are also institutional forms that provide the bourgeoisie of the economic order with the means of acquiring indirect membership of the political community. Thus their role is to inspire members of society with a spirit of solidarity and to preserve the ethical values that have become exhausted in civil society. This institutional dimension ascribed to the social structuring of the commercial order is of course foreign to Steuart's thinking and, more widely, to Scottish political economy. In Hegel's thinking, the purpose of the estates is to bring about a phase of social recognition among individuals, an ethical unity that paves the way for that achieved within the State. For Hegel, the institutionalization of the social estates is the means by which the atomism of the system of needs can be transcended and integrated into an all-inclusive totality. Thus

his purpose here is to replace the mechanical or abstract relationships that characterize the system of needs with an organic relationship between the members of the three estates.²³ In other words, individuals' membership of an estate constitutes an integrative phase through which the pursuit of private interests is raised to the higher level of social solidarity. The social estate, in mediating between the economic and political spheres, is the means whereby the mechanical dependence of individual aims can be raised to an ethical relationship based on social interdependence and economic relationships can be imbued with morality through the gradual convergence of individual interests with the general interest.

Notes

- 1 Nevertheless, if due consideration is given to the status that the sphere of labour and economic activity occupies in Hegel's thought, we are forced to conclude that it was through Smith's work that Hegel was led to conceive of civil society as an active intermediary between the family and the State and as a stage in ethical life. Indeed, it was Smith's concept of an economic order sustained by its own immanent laws that opened the way for the ethical internalization of human relationships, i.e. the reconciliation of individual interests within the economic order. In Steuart's work, on the other hand, the counterpart of political activism on the part of the statesman is a commercial order subject to a large extent to contingency, if not to chaos. This notion, which Hegel retained until the second edition of the *Phenomenology of Spirit*, was an obstacle to the forging of a satisfactory link between the social and the political, which achieves its definitive expression in the *Philosophy of Right*.
- 2 We have chosen to translate the term *Stand* as 'estate', since the notion has an institutional dimension. Moreover, Hegel explicitly contrasts it with the notion of class (*Klasse*). See Lefebvre and Macherey (1984:38, 43–5).
- 3 This comparison has been developed in particular by Walker. The author shows that the Prussian General Code of 1794 reflects the convergence between two concepts of society, one based on the different social functions characteristic of German cameralism and one based on the rights laid down in German law. The form of social compromise contained in the 1794 Code finds an echo in the Hegelian doctrine of estates. According to Walker, this doctrine reflects a similar attempt to reconcile the division of society into estates with a recognition of the positive rights of individuals. See Walker (1978:234–51) and Koselleck (1967:23–149).
- 4 For an in-depth study of the theoretical links between Hegel's concept of the estates and Aristotelian thought, see Bourgeois (1986:355–446) and Bienstock (1992:105–15).
- 5 The members of the universal class, who are free from the obligation to work in order to satisfy their needs, are able to devote themselves to the common good. In exchange for the work done by the lower estates engaged in production, they are the standard-bearers of the universal within society and ensure that private property is protected.
- 6 Thus in the *System of Ethical Life*, the three estates considered are presented as the embodiment of a particular kind of ethical life: gallantry is embodied in the absolute estate (the nobility), rectitude in the bourgeois and commercial estate, and trust in the peasant estate. Similarly, in the *Philosophy of Mind*, published

in 1805, Hegel ascribed an 'internal disposition' (*Gesinnung*) to each of these estates. See Hegel (1984, 1992).

- 7 The influence of Cantillon, of the physiocrats and, more specifically, of Mirabeau on Stuart is stressed by Perelman (1983:471) and Chamley (1965a:71–80).
- 8 See Stuart (1966:58):

These (the free hands) I must subdivide into two conditions. The first, those to whom this surplus directly belongs, or who, with a revenue in money already acquired, can purchase it. The second, those who purchase it with their daily labour or personal service.

- 9 The income that manufacturers derive from exchange relationships has two basic components: the first covers the repayment of 'production costs' (i.e. the cost of raw materials, production equipment and subsistence wage), while the second constitutes their profit upon alienation. However, this profit is regarded as a net income, greater than the first component and used essentially for the consumption of luxury goods. Many commentators have pointed out the absence in Stuart's work of a concept of profit linked to advanced capital and his confusion of profit with wages. See Meek (1967) and Tortajada (1993:15).
- 10 Hegel's position vis-à-vis the agricultural estate is ambiguous. He states both that the peasant class 'is certainly involved with physical needs (and) falls likewise into the system of universal dependence' and that, like the 'worker engaged in abstract labour', it 'fulfils virtually all its needs through its own particular form of labour' (1992:175; 1984:270). Thus we are led to suppose that for the peasant estate, production is first and foremost a means of producing goods for its own subsistence. See (Hegel 1986:227):

What he receives is sufficient unto his needs: he consumes it because he knows he will receive it again. This is a simple attitude, which is not driven by the acquisition of wealth; it can also be likened to the attitude of the old nobility that consumes what is there. In this primary social class, it is nature that plays the principal role and assiduous labour is subordinated to it.

- 11 Interpreted historically by Stuart on the basis of his notion of the infant trade, the emergence of a commercial agricultural sector goes hand in hand with the social division of labour between farmers and free hands. This differentiation is reflected essentially in the creation of a free labour force leaving the land in order to work in manufacturing industry. Labour in the agricultural sector, therefore, has to be increased in order, on the one hand, to release the workers needed to satisfy the requirements of manufacturing industry and, on the other, to create a surplus to be consumed by the non-agricultural sector in exchange for luxury goods. See Perelman (1983) and Kobayashi (1967).
- 12 See, for example: 'Industry is the application to ingenious labour in a free man, in order to procure, by the means of trade, an equivalent, fit for the supplying of every want' (Stuart 1966:146).
- 13 See also Stuart (1966:168, 260–5). Like Hegel, Stuart makes a distinction between the nature of the work done in industry and that done in agriculture. He describes agricultural work as 'arduous' and industrial work as 'ingenious'; unlike the former, the latter can never be likened to that of a slave.
- 14 It is clear that the figure of the merchant is linked in Stuart's work to a specific concept of the market and of price determination. This aspect, which we are

- forced to disregard here, has been dealt with elsewhere. See Rebeyrol (1982).
- 15 With the introduction of money and trade ‘the exchange relationship...becomes a totality’ states Hegel (1992:137).
 - 16 Thus any object handled by a merchant is divided into a specific object (the commercial article) and an abstract object (money).
 - 17 This being the case, the nature of the merchant class and of commercial profit (which is alluded to) pose an awkward problem, since Hegel seems on several occasions to combine merchants and producers under the term factory owners and manufacturers. It was undoubtedly this uncertainty that led Hegel to reintegrate the merchant estate into the industrial estate in the *Philosophy of Right*. Hegel is undoubtedly referring here both to the ‘merchant-manufacturer’ who infiltrates the sphere of production by putting out work to craftsmen working at various locations (*Verlagsystem*) and to the factory-owning merchant. See Dockès and Rosier (1988:105–9).
 - 18 The theoretical parallels between Steuart and Hegel in their analyses of the transition from the feudal to the modern world have been analysed by Chamley. He shows that both authors perceive this breach of historical continuity as an alienation of the State in wealth, with that alienation being reflected in the elimination of the feudal class ‘to the benefit of the economy and of royal power’ (Chamley 1963:94–102).
 - 19 In times of peace, this ‘poor nobility’ is eclipsed by the influence and esteem of wealthy merchants and industrious traders.

But when danger threatens from abroad, and when armies are brought into the field, compare the behaviour of those conducted by the warlike nobility, with those conducted by the sons of labour and industry; those who have glory, with those who have gain for their point of view.

(Steuart 1966:71)

- Similarly, Hegel, in *Natural Right*, stresses that the bourgeois excluded from the noble estate dispenses with gallantry and devotes himself to industrial and commercial activity (Hegel 1972:54–69).
- 20 This aspect is highlighted by Skinner (1993:21).
 - 21 See Hegel (1986:312–3). Hegel justifies the political position of landowners on the grounds that their inherited wealth is attached to the right of primogeniture and is not therefore at the mercy of market uncertainties.
 - 22 Steuart stresses the need to create an appropriate social division of labour in order to ensure that mutual needs are suitably structured. Thus, far from abandoning the differentiation of the various sectors of economic activity and the distribution of individuals into social classes solely to the free play of market forces, Steuart advocates that they should be structured by the statesman (whose task it is to oversee the historical process of the division of labour and structure the various sectors of activity from both economic and geographic points of view). Steuart’s perspective here is that of the historical genesis of the social division of labour. His analysis relates to the differentiation of the various sectors of activity and the way in which men are put to work in emerging industries once they have been ousted from the agricultural sector. It is for this reason that many commentators, following the example of Marx, have seen Steuart as a great theoretician of primitive accumulation. See Perelman (1983:468) and Kobayashi (1967:2–13). Moreover, in this task of social structuring, the statesman

must try 'to keep every one employed, according to the wants and spirit of his class' (Steuart 1966:300–2).

- 23 As Hegel put it, 'it is the reason intrinsic to the system of human needs and their (dialectical) movements that transforms this system into an organic whole made up of differentiated elements' (1986:225).

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MARX'S POLEMICS AGAINST STEUART

Henri Denis

Introduction

The importance of Steuart, from the point of view of studying the evolution of economic thought, lies primarily in the fact that his major work was basic reading material for Marx, and that the author of the *Capital* often argued with the author of the *Inquiry*.

Marx criticizes Steuart on two main grounds. He reproaches him, on the one hand, for his proposal to replace convertible money with bank money which was to be an 'ideal standard of value'. And he criticizes him, on the other hand, for his conception of profit deriving from sale (*profit upon alienation*).

Both criticisms tend to prove the need to establish the value of merchandise on the basis of the work that goes into its production. It appears today that Marx's criticisms were not justified.

The ideal measure of values

Steuart writes:

Money, strictly and philosophically speaking, as has been said, is an ideal scale of equal parts. If it be demanded what ought to be the standard value of one part? I answer, by putting another question: What is the standard length of a degree, a minute, a second? It has none, and there is no necessity of its having one other than what by convention mankind think fit to give it.

(Steuart [1805] 1967:2 274–5)

According to Steuart,

gold and silver coins have many disadvantages. The main point is precisely that there exist two metals serving as a basis for coins. For the ratio between the values of these metals keeps changing. When the value of gold diminishes with regard to the value of silver, the

holder of a claim drawn up in gold suffers a loss compared to one who holds a claim drawn up in silver.

(Steuart [1805] 1967:2 282–4)

Another inconvenience which Steuart curiously counts among ‘minor’ inconveniences is the fact that the value of coins is ‘at the mercy of Princes’. So it is preferable to have money of the kind issued by the Bank of Amsterdam, because ‘this bank money stands invariable like a rock in the sea’ (Steuart [1805] 1967:2 276).

There are evidently two aspects to be examined in Steuart’s doctrine. 1) Is it true that there is no need to link money with a commodity such as gold or silver? 2) Is it true that bank money or generally inconvertible money, has the advantage of remaining ‘invariable like a rock’? Marx answers both questions in the negative. His response to the second question is certainly right, but his response to the first is not.

Marx’s criticism of Steuart’s theories about the ideal standard of values is most fully explained in the passage from the seventh notebook of his *Manuscripts 1857–1858*:

Money is only a measure because it is working time materialized into a specific substance, so it is *value* itself.... But since, in its function as *measure*, money is merely an imaginary point of comparison, [and] only needs to exist ideally,...since, moreover, it only functions in this quality of measurer as money of account,...all this has been the occasion for a confused representation of an *ideal measure* developed by Steuart, and at various periods, and even quite recently, brought into line with current tastes in England as though it were a profound discovery.... This *ideal measure* according to Steuart means: if I say that commodity a is worth 12 pounds, and commodity b 6, and commodity c 3, this=that they are in the ratio of 12:6:3. The prices only express the proportions in which they are exchanged against one another. You exchange 2b against 1a and 1b 1/2 against 3 c. Now instead of taking the ratio of a, b, c in real money, which has value itself, and which is value, could we not just as well take, instead of the £ which expresses a definite mass of gold, any arbitrary name without content (what is here called *ideal*)...? Steuart’s example using the comparison with degree, line and second does not prove anything; for although the degree, the line and the second are variable in size, they are not simple names. On the contrary, they always express the divisor of a certain magnitude of space or time. They in fact have substance.... The right thing would therefore be to express no name, but a simple numerical ratio...[But] the simple numerical ratio, without a denomination, *would not do*. For $a/b=12/6=2/1$, and $b/c=6/3=2/1$. So $c=1/2$. So $b=1/2$, so $b=c$. Similarly $a=2$ and $b=2$; so $a=b$.

Steuart's mistake is the following: commodity prices express nothing other than the ratios in which they are exchangeable for one another, the *proportions* according to which they are exchanged for one another. Once these proportions are given, I can give any name to the unit, because the abstract number without the name would suffice, and instead of saying: this commodity=6 stüber, the other 3, etc., I could say: this one=6 units, that one=3; I would not even have to give a name to the unit. Since it is now merely a numerical ratio we are dealing with, I could give it any name. But here it is presupposed that these proportions are already *given*, that the commodities have already previously become commensurable magnitudes.... Money precisely appears as a measure, and as a unit of measure, it appears as a specific quantum of merchandise in which it manifests itself, so that one may find the *proportions* and handle the commodities as commensurable [things]. This real unit is the working time which is relatively objectified in them.

(Marx 1980:2 280–1, 283–4)

The only valid argument Marx uses against Steuart is the one he sets forth when he says that 'the simple numerical ratio would not do'. Indeed if you say that asset $a=2$, under the pretext that it can be exchanged for $2b$, and that b is also worth 2 , under the pretext that it can be exchanged for $2c$, then you commit the mistake of saying that the value of a is the same as the value of b , which is not necessarily true. But Steuart could have given Marx the following answer: I am not at all proposing to measure the value of a commodity by its exchange ratio with *any other*. On the contrary, that is what I refuse to do when I ask that money should not be attached to any particular commodity. I propose to say that $1a$ is equal to 12 , when at the same time $1b$ is equal to 6 and $1c$ is equal to 3 . This enables me to say, for example, that $1a$ is equal to $4c$ and $1b$ is equal to $2c$. As a result, $1a$ is equal to $2b$, rather than the value of a being the same as the value of b .

This reply would have meant that in the exchange system, each commodity is in a given ratio with each of the others, and that none of these ratios alone determines the value of the commodity, but only the whole series of these ratios. For the exchange ratio between the two commodities a and b is necessarily the result of dividing the exchange ratios of a with all the commodities other than b into the exchange ratios of b with all the commodities other than a : if $1a=4c$ or $8d$, and if $1b=2c$ or $4d$, we know the exchange ratio between a and b , which necessarily equals 2 . This economic law is simply due to the possibility of carrying out indirect exchanges, for example of acquiring commodity c with commodity a by way of commodity b . In the *Encyclopædia of Philosophical Sciences*, Hegel sets out this law and compares it with the law of 'proportional numbers' concerning chemical

combinations of simple bodies, a law expressed by Richter at the end of the eighteenth century (Hegel [1830] 1970:2 376).

The mistake Marx made in his polemics against Steuart shows that, even in his *Manuscripts 1857–1858*, he remained faithful to Aristotle's logic and did not follow Hegel's. The example provided by Hegel about the analogy existing between the law of exchanges and one of the laws of chemical combinations should have shown Marx that he was wrong to adhere to Aristotle's idea that 'exchange is not possible without equality, nor equality without commensurability' (Aristotle 1965: Book 5, chap. 5), since this is neither confirmed by political economy nor by chemistry. Hegel thought that measure, of which the exchange ratio is an example, implies no common 'substratum' for things being compared. This caused him to assert that the essence of beings is the simple negation of their perceptible qualities, a theory that may lead to the statement that an exchange value need not be defined otherwise than by the negation of the commodity's value in use.

On the question concerning the value of money, Steuart was therefore right. Experience has borne out his thesis that the convertibility of money is not a necessity. Of course, this does not mean that he was right in maintaining that the inconvertibility of moneys would remove the inconveniences attached to convertible moneys. The losses that creditors may suffer under a system of inconvertible moneys are even greater than those of which the princes were responsible under the system of convertible moneys, since the value of inconvertible money can be completely nullified.

The problem of profit

It was Marx's attachment to Ricardo's theory about value which led him to reject Steuart's thesis about the possibility of making a system of inconvertible money work. And it was in the name of the same theory that he developed his critique of the position upheld by Steuart on the question of profit.

In Chapter 4 of Book I of the *Inquiry*, Steuart distinguishes between the 'real value of the commodity' and the 'profit upon alienation'. To determine the price of a product, he says, we must know three things: the quantity of work expended, the value of the goods consumed by the worker and the value of the instruments used for production, and finally the value of the raw materials used. The price of the product cannot be lower than 'the sum' of these three things, which is the real value of the product. Of course, Steuart was not saying that one could add up working hours and subsistence costs, production equipment and raw materials. He meant that on the basis of the quantity of work expended, one could calculate the subsistence costs, which could then be added to the costs of production equipment and raw materials. Profit, on the other hand, appears when the price is 'higher than the real value' (Steuart 1966:1 160).

Is that how profit is to be understood? There are at least two reasons for serious doubt. In the first place the profit in question is just as much that of the artisan as that of the factory owner and that of the merchant. The institutional framework is not sufficiently defined to enable us to construct a theory. Moreover, profit is seen as it is seen in business practice, as the difference between a sale price and a cost price. But profit can only be understood on a scale of national economy in which masses of separate revenues confront each other.

According to Steuart, the amount of profit depends essentially on the demand for the product (Steuart 1966:1 161). He thus supposes that production costs are independent from the quantities produced. The highest price that may be fixed is the one beyond which there are no buyers. That is when profit is at its maximum. Steuart wants it to be 'moderate'. To that end, there must be competition both on behalf of the buyers and on behalf of the sellers. There is 'perfect balance' when the sellers' as well as the buyers' profits are limited. The term 'profit' then takes on a broad meaning. To the buyer, it signifies the advantage he derives from the fact that the price has not been raised to its maximum: 'A moderate positive profit must balance a moderate positive profit; the balance must vibrate and there must be no loss on either side' (Steuart 1966:1 162). In short, the idea of vibration makes up for the uncertainty in which the author keeps us with regard to the source from which the profits come.

Marx, in his *Theories sur la Plus-Value*, strongly opposes Steuart's conception of the 'profit upon alienation'. And he goes back to the subject, though without mentioning Steuart, in Chapter 5, Book I of the *Capital*. He maintains that it is not possible to sell commodities above their value, in the sense Steuart understood it, that is above their production costs. His most elaborate criticism is in the *Capital*:

Let us suppose now that by some mysterious privilege, a seller manages to sell his merchandise above its value, say 110 when it is only worth 100, that is, with an increase of 10 per cent. But having been a seller, he becomes a buyer. A third dealer comes to him as a seller and in his turn enjoys the privilege of selling the merchandise at a 10 per cent higher price. Our man has thus gained 10 on the one hand to lose 10 on the other. The end result is in fact that all the dealers sell each other their merchandise at 10 per cent above their value, which comes to the same as selling it at its real value.

(Marx 1948:1 164ff.)

Marx's criticism is weak because it only applies to a direct exchange between independent producers. If two artisans sell each other their products for 110 instead of 100, it is clear that they make no extra profit. But once there are intermediaries, things are different. In a small-scale economy where merchants

buy to resell, the prices are increased by the amount of their profits. Of course, the merchants themselves pay higher prices. But that does not nullify their profits. They use up part of the total production. Commercial profit therefore exists because prices are higher than production costs.

But Marx's argument is particularly inoperative when it concerns a capitalist economy. He comes quite close to realizing it himself, since he writes 'Those who defend this illusion are therefore forced to admit a class which always buys and never sells, or which consumes without producing' (Marx 1948:1 161). Is it not precisely this characteristic which, according to Marx, describes the capitalist system?

In his *Theories sur la Plus-Value*, Marx criticized Destutt de Tracy for reasons similar to those which he held against Steuart (Marx 1948:1 310). He found it ridiculous for Destutt to have written that capitalists made profits by selling commodities to themselves. But isn't that what actually happens, since part of the net national product goes to capitalists?

The question Marx could rightly have asked Steuart is the following: if products are to be sold above their costs, where does the purchasing power come from to buy them at prices above their costs? Had he asked this question, he should have found out that revenues are paid to company owners before the commodities are put on the market, and that these revenues make it possible for commodities to be sold above their production costs, and hence for profits to be made by companies.

The fact that the revenues paid to owners enable producers to sell at profit-making prices is very apparent in Quesnay's *Tableau Economique*. But Quesnay sees it without understanding it, since he finds it necessary to say that the 'net product' is a gift of nature.

Steuart is sometimes close to the truth. He says, for example, that the 'industrious...regulate their living and expence according to their certain profit' (Steuart 1966:1 161). He then comes quite close to saying that the employers pay themselves profits at the very time when production operations are going on. Adam Smith more clearly expresses reality when he says of the employer:

Just as he advances to his workers their salaries or their subsistences while preparing his commodities and putting them on the market, so he pays himself his own subsistence, which is usually proportionate with the profit he can reasonably expect from the sale of his commodities.

(Smith [1776] 1995:1 64)

By saying that the employer has to 'pay himself his own subsistence', Smith expressed the fundamental idea that the employer has to pay himself his profit before selling his merchandise. This explains the fact that commodities are sold at prices that are higher than the production costs because the

employers dispose of a purchasing power with which they can buy part of the net national production. The question about the origin of profit is then completely explained, since it appears that the source of profit realized by companies is the profit the employers have paid themselves before the sale of the commodities.

Unfortunately, Smith failed to draw the logical consequences of the idea he thus put forward. When in Chapter 1, Book 2 of the *Wealth of Nations*, he comes to speak of the ‘division of funds’, he does not take into account what he said earlier, stating that the employer provides for his own needs thanks to a fund *which is not capital*:

But when he [the employer] possesses a stock sufficient to maintain him for months or years, he naturally endeavours to derive a revenue from the greater part of it; reserving only so much for his immediate consumption as may maintain him till this revenue begins to come in. His whole stock, therefore, is distinguished into two parts. The part which, he expects, is to afford him this revenue, is called his capital. The other is that which supplies his immediate consumption; and which consists either, first, in that portion of his whole stock which was initially reserved for this purpose; or, secondly, in his revenue, from whatever source derived, as it gradually comes in; or, thirdly, in such things as had been purchased by either of these in former years, and which are not yet entirely consumed; such as a stock of clothes, household furniture, and the like.

(Smith [1776] 1995:1 313)

Smith at this point forgets his earlier statement that the employer has to pay himself his profit before selling his merchandise, which means that he has to spend capital on it, just as he spends capital when he pays salaries.

Because of this inconsistency on Smith’s part, economists for a long time completely lost sight of the idea that profits have to be paid before they are made. In 1950, however, Kenneth Boulding, in his *A Reconstruction of Economics*, showed, on the basis of a study of company balance sheets, that the profits made cannot be higher than the profits paid, this term being used in a broad sense to include the profits directly used by the companies for self-financing part of their net investments.

To deal with the question of the origin of profit, Marx could have benefited from the idea suggested by Stuart and clearly expressed by Smith at a certain point, that the employer has to advance what he needs for his subsistence. This would have made him see that the capital spent by companies includes the profits paid, and hence that the capital rebuilt at the end of the cycle he describes is not greater than that which was advanced. But at the time he wrote the *Capital*, he did not see this. It was only towards the end of his life that he came to admit that capitalists have to ‘put into circulation’ the money necessary to ‘realize the increase in value’.

With respect to the capitalist class on the whole, the thesis that this class itself has to put into circulation the money necessary to realize its increase in value...not only does not appear as a paradox, but forms the necessary condition for the entire mechanism.

(Marx 1948:5 72–3)

Marx is then quite close to solving the problem he poses about Steuart: how is it possible that commodities are sold at prices that are higher than their costs? However, he finds it difficult to admit, at this point, that his refutation of Steuart in Book 1 of the *Capital* was unfounded quite simply because profits are paid before being realized.

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THE NEW INTERPRETATION
OF STEUART BY PAUL
CHAMLEY

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Introduction

An essential part of Chamley's work concerns the relationship between Hegel and Steuart. But he also devotes some thought to the relationship between Steuart and Keynes. Chamley wholly shares the opinion of Steuart's French translator regarding the ambiguous claims made about the work of the mercantilist author:

The chevalier Steuart has had this honour which mediocrity cannot obtain: he has been rarely quoted, it is true; but he was often copied. Mr. Smith himself, in his very rightly famous work, has combined in the first three books everything our author has said about the same subjects, but without going as deeply into them.

(Chamley 1962:312)

According to Chamley, as far as borrowings and plagiarism are concerned, neither Keynes's attitude towards Steuart—nor for that matter Malthus's—were quite straightforward.

Hence this chapter consists of three parts of unequal scope and importance. After a few preliminary remarks on Chamley's specific working method in the history of economic thought, we will present successively Hegel's, then Keynes's relations with Steuart, as read and expounded first by Chamley, then by Steuart and Keynes.

Some observations about the work of Paul Chamley¹

What strikes the reader of Paul Chamley's writings (and this is also true of the students who attended his courses on the history of economic thought) is his almost obsessive meticulousness in the study of texts. Throughout his life, Chamley cultivated a profound sense of authenticity. It was because of this demand for authenticity that he could not content himself with the

officially published editions of historical authors such as Steuart. Chamley devoted years of work to examining the manuscripts of these authors in private libraries. He attached great value to the concept of the 'original text'. He systematically refused to use translations. His students often heard him say that 'an author must be read in his original language'. In his *Économie politique et philosophie chez Steuart et Hegel* (1963) we come across the following quotation from Etienne Gilson (*Saint Thomas d'Aquin*, 1925):

Nothing is trustworthy regarding the thought of a philosopher, neither a book nor a historian, nor no matter how careful a translation: nothing except the actual text of this philosopher, read in the language in which he wrote it.

(Chamley 1963b:11)

This cult—the word is not exaggerated—of the text made a deep impression on his students. Not that we paid any attention to the fetishistic aspect of cults as such. What we found important was the fact that such utmost attention stemmed from a very deep sense of the relative autonomy of the work, both with respect to the primary message communicated in it, and with regard to the profession of faith by the author himself about his own work.

Chamley warned us against confusing two levels or two categories: the category of the author's ideology or *Weltanschauung* and that of his argument as it hangs together in his work. Chamley's venture as a whole proceeded from the fundamental conviction that the order of an argument is ruled by a specific logic which cannot be reduced to a simple conception of the world; and that the function of the history of thought essentially consists of attaining this logic. This conviction led Chamley to a method of reading in which great attention is paid to the unsaid, to the not immediately apparent, to hidden correspondences, to intimate, unexpected and unforeseen relationships. In this sense his work is essentially analytical, in the structuralist sense of the word; that is, it attributes more importance to the relationships forming the articulations between terms than to the intrinsic value of the terms themselves. He taught us that it is perfectly possible to carry out a strict analytical examination of texts; and that analytical precision is not exclusively reached by formalization. We might even speak of a 'symptomal interpretation', were it not for the fact that Chamley literally detested authors such as Althusser, that is authors who considered the works of Marx to be of any philosophical interest. His moral judgement regarding Marx was irrevocable. But it so happened that all of the students who were influenced by his teachings were also great admirers of Marx's works. The fact is that all we have just said about the originality of Chamley's method of interpretation can also be applied to his own person. There is Chamley's specific work and there is Chamley's viscerally anti-Marxist ideology. These are two irreducible categories. The 'negations' [Verneinung] in the Freudian

sense (another reference that was insufferable to our author's ideology), which he very keenly spotted in the works of the authors he studied, are no doubt also to be found in his own activity. We shall try to point out a paradox in the author's work which may lend itself to an analysis in terms of 'negation'.

Chamley's theory about Stuart

Chamley's interest in Stuart was mediated by Hegel. His purpose was to show that Hegel's study of the work of the mercantilist economist contributed considerably to the philosophical system elaborated by the author of *The Phenomenology of the Mind*. We are dealing here, strictly speaking, with an interdisciplinary work, showing that sources relating to remote fields of study and hence deemed of no specific interest to scholars of a given discipline may have played a crucial part in the theoretical elaboration of essential components of that very discipline. The meticulousness of Chamley's interdisciplinary and analytical work is particularly apparent in the paradoxical character of his thesis, since Hegel does not explicitly refer to Stuart in his writings. Yet Hegel's biographers attest that he had not only read *An Inquiry into the Principles of Political Economy* in his youth, but had even written a commentary on this work. Although this commentary was subsequently lost, the study of the gradual emergence of Hegel's philosophical themes reveals Stuart's great influence on the philosopher. According to Chamley, there is a distinct demarcation to be observed, as far as the content is concerned, between two periods, two sets of the German philosopher's early writings. This demarcation takes place at the beginning of January 1797 and corresponds precisely with his reading of the *Inquiry*.

Stuart and Hegel

The two periods or two sets of writings between which Hegel read Stuart are as follows:

The *first period* lasted from 1792 to the end of 1796. In 1792 Hegel was in Tübingen where he studied at the *Stift* (Seminary of Protestant Theology) and obtained the degree of *Magister philosophiae*. In 1793, he was in Bern as a private tutor, and stayed there until early 1797. He wrote *The Life of Jesus* (1795–6) and *The Position of the Christian Religion*. He also worked on a travel diary in the Oberland. Here we already find an 'initial programme of German idealism'.

The *second period* lasted from early 1797 (Hegel was in Frankfurt as a private tutor) to 1800 (Hegel's appointment in Jena). This period is marked by a series of works of a political and theological nature: *The New Internal Situation of Württemberg*, *The Spirit of Christianity and its Destiny* and *The Constitution of Germany*. And finally, a *Commentary on Stuart*, attested by Rosenkranz in his *Georg Friedrich Hegel's Leben*, 1844. According to

Rosenkranz, Hegel wrote an ample commentary on Steuart's work from 19 February to 16 March 1799. But there must have been an interval between the date of his commentary and the date he read Steuart. Chamley believed that Hegel became aware of Steuart's book from the very beginning of his stay in Frankfurt.

It must be pointed out, meanwhile, that Steuart's book was until 1796 the best treatise on political economy. In Germany, Steuart was translated even before he was published in England. The manuscript of this first translation is preserved at the *Landesbibliothek* in Karlsruhe. It was translated for the Margrave of Baden-Durlach. There followed two more translations. The first was done by J. von Pauli under the title *Untersuchung der Grundsätze der Staats-Wissenschaft* by John Steuart (1769–70). The second translation was the work of Christoff Friedrich Schott, with the title: *Untersuchung der Grund-Sätze von der Staats-Wirtschaft als ein Versuch über die Wissenschaft von der innerlichen Politik bei freien Nationen* (Tübingen, two volumes, 1769–72). In fact Schott took over a very large part of Pauli's translation. But one thing is certain: Hegel must have read Schott's version (Chamley 1965a: 89–90).

In Chamley's opinion, Hegel's encounter with Steuart was the meeting between philosophy and political economy. It is Hegel's attitude towards Steuart that attracts the author's attention.

What exactly happened between the writings of these two periods? In what way did reading Steuart produce a change of attitude in Hegel? Chamley maintains that Steuart's influence on Hegel was essentially exercised on two levels: on the one hand, it concerned the conception of work and economic activity, and on the other, the very conception of dialectics.

The Hegelian theme of work and Steuart

In the early writings of Hegel's youth, which are essentially of a theological character, there are frequent references to work, but it is viewed in an exclusively philosophical sense. Although the source of this interest in work is quite obviously the famous fifth chapter of John Locke's *Second Treatise of Civil Government*, Hegel does not adhere to that aspect of Locke's thesis which establishes a relationship between value and work. He conceives work as that essential activity which enables man to liberate himself. It was within the problematics of exteriorization and self-realization that the subject of work was first broached by Hegel. We have here an image of economic activity which

already contains the idea that the destiny of man consists of exteriorizing himself. The critical argument against this description is equally obvious: without a climate of liberty, man will not be able to recover from this exteriorization, he will become alienated from

himself, 'the hard yoke of needs' will 'weigh down upon him as an external constraint'.

(Chamley 1965b:226–7)

No attention was as yet being paid to the social aspect of work and economic activity.

Later, but still within the same period in Bern, Hegel's Hellenizing lyricism gave way to a somewhat abstract cult of republican virtue (Chamley 1965b:228). Man was still considered to be exteriorizing himself by producing, but now his production was the political All in which he could find direct participation and an immediate interest. *Tätigkeit*, that is activity, in the creative sense, has its place in political life. True work is political work. Non-political life, the life that 'limits itself to spheres of private interest, only produces minor, or even fictitious values' (ibid.). But in his writings of the first period, Hegel is hardly interested in work in the economic sense of the term. He looks at it from a political point of view. A certain mistrust with respect to excessive wealth is expressed in these passages. The Aristotelian idea of subordinating economical to political concerns, and private economic interests to the common weal is expressly stated. The dialectics of exteriorization do not involve the work space; hence these dialectics 'keep a contracted form' (ibid.: 229). The State is still without an 'internal movement', precisely the movement that work introduces into the social whole by dividing it up into 'civil society' and State in the narrow sense of the word. This undivided state of affairs is accentuated by the fact that the democracy of ancient Greece, which serves Hegel as a major reference, is a direct democracy in which the social life of the individual merges with his political existence. 'Paradoxically', writes Chamley, 'to see social activity further deployed, we have to wait for the pages describing the decadence of the State and the expansion of private economic life' (ibid.: 230).

The Frankfurt writings (1797–1800) mark a noticeable change in Hegel's overall view of economic matters. Economic activity continues to be considered as a subordinate activity: 'this Aristotelian principle is never abandoned' (Chamley 1965b:230). However, economic activity gradually acquires major importance in the constitution of the subject and the State. Chamley feels that this can be considered as a break: 'this transformation is easily explained if we admit that Steuart's influence, attested by Rosenkranz from February 1799 at the latest, had in fact been present from the beginning of Hegel's stay at Frankfurt' (Chamley 1965b:235).

We know that in the second chapter of Book I, entitled *Of the Spirit of a People*, Steuart refers to the episode of Jacob in the Old Testament to describe the characteristic features of a primeval society. It so happens that in the Frankfurt writings, Hegel's attention is also drawn to the Old Testament. And a term derived from Steuart, *Denkungsart*, also appears in Hegel's writings of this period.

Further noteworthy changes support the hypothesis that Hegel had read Steuart from the beginning of 1797. First of all, in the Frankfurt writings, history acquires a new dimension, namely economic development. The State is no longer a simple and primeval reality. Since man is a being of wants, his political blossoming requires a relaxation of the pressure of wants on his life. As a result, a modicum of economic development forms the very prerequisite for political activity, and thus the very prerequisite for the State. Man first has to learn how to subdue nature in order to be in a position to devote himself to political work. Steuart indeed shows that 'economic development commands the destiny of every nation'. Second, work appears in his writings under its aspect of economic activity, that is, as the faculty of producing goods that can satisfy wants. Work is no longer sublimated under various political activities. And finally, nature is no longer what it meant to Rousseau, or the *Muttererde* (mother earth). It is no longer the 'Greek foster-mother' of the Tübingen or Bern periods. It is now closer to Fichte's Non-I 'with which the I can enter into a dialectic relationship that is sometimes peaceful [...] sometimes violent' (Chamley 1965b:233).

In his Frankfurt writings, Hegel also opposes Herder's conception of history, in which the patriarchal Jewish life is represented as a golden age. Hegel now discovers a different interpretation of the same story in Steuart. The *Hinausblicken über das Gegenwärtige* [looking out beyond the present] or *Überspringen der Natur* [skipping over nature], which characterize the attitude of the Jewish people, and particularly Abraham's, in fact reflect an impotence, that is, a 'technico-economic weakness' (Chamley 1965b:233). It is because Noah and Abraham are members of a community incapable of achieving the slightest economic development that they see nature as a dangerous enemy, as a hostile power with which no compromise, and *a fortiori*, no reconciliation is conceivable. The Jewish people, and more generally all the Asian peoples who had to confront an extremely hostile nature, have oscillated between two extremes: to dominate or be dominated, Nimrod or Noah: 'The happy peoples are those who are spared this fate. Despite the ordeals they suffer, they are allowed to trust nature, to reconcile themselves with it, and to steer a middle course between extremes, avoiding ugliness' (ibid.: 234). The condition for this 'middle course' is precisely economic development, that is, a technico-economic improvement allowing people to satisfy their needs in relative serenity. It is in this context of relative economic prosperity that peace or reconciliation with nature can be conceived.

Reading Steuart led Hegel towards a new interpretation of the role of religious alienation. Previously, during the Tübingen period, Hegel had attributed a first-cause status to religious alienation. Religious alienation had been made responsible for social ills. Now, however, he states that 'generalized religious alienation is an epiphenomenon of servitude' of the technico-economic kind. It is the fate of a people who withdraw within themselves in the face of a challenge from hostile nature. It is interesting to

note that Hegel's reflections acquire a tone resembling Feuerbach's precisely when he attributes the origin of religious alienation to servitude due to technico-economic failure.

Religious alienation consists of once and for all transferring all the riches of man and nature into the hands of the divinity: 'Denn sie hatten alle Harmonie des Wesens, alle Liebe, Geist und Leben einem fremden Objekte anvertraut, aller Genien, in denen die Menschen vereinigt sind, sich entäussert und die Natur in fremde Hände gelegt.' [For they had entrusted all the harmony of being, all love, spirit and life to an alien object, had divested themselves of all the mental powers common to men and had put nature into alien hands.]

(Chamley 1965b:234–5)

The importance Hegel came to attribute to the technico-economic order under Steuart's influence naturally called the philosophers attention to the evolution of the material conditions of work throughout history. Hegel gradually found that the great break in the history of humanity was the abolition of slavery. Here, too, Steuart's analyses were decisive. Indeed, according to the mercantilist author, the greatest change in the spirit of modern times was the abolition of slavery. Relinquishing bondage, achieving a technico-economic performance and consistent production so that men could lead a decent existence, these were steps that were only made possible with the advent and development of industry. Industry requires a system of work that does not involve slavery; industry requires free hands, *freie Hände*: 'only free work can start up the mechanism of economic expansion. It is the very shape of modern liberty' (ibid.: 247). Slavery has hence formed the major obstacle against economic development in history. This observation reveals, in Hegel's eyes, the decisive role of emancipation which Christianity has played in human history. Christianity contains a progressive power, and it is again Steuart who leads Hegel in this direction: 'It was Christianity that removed the obstacle, through the general suppression of slavery. After the transition carried out by the feudal regime, a general regime of freedom was instituted due to the advent of industry' (ibid.: 247). The liberation of work through the general abolition of slavery positively opened up the field of economic activity in which the individual was to find the material conditions for personal emancipation. In this connection, Christianity and the French Revolution have, according to Hegel, contributed to the historical realization of modern individual freedom. However, individual freedom is incompatible with an exclusively agricultural type of production; for agricultural work necessarily involves some constraint. The truly free peoples are those who have allowed the development of industry within their midst, with free work as its corollary.

However, Hegel's position clearly differs from Steuart's on the question of the political status of the free worker. In the name of economic efficiency,

Steuart in fact denies the individual free worker the civic rights allowing him to participate in the common political life of the city. Indeed, 'Steuart's ideal State is technocratic, his principle is economism' (Chamley 1965b: 248). Relying on his own economic knowledge and his comparative experiences in various countries, the *statesman* autonomously determines the economic policy of the State. As usual, Steuart combines economism with scientism. Indeed, in his system 'the *Staatswirtschaft* [political economy] encompasses the State and tends to absorb it' (ibid.: 254). The active participation of the citizen in the management of affairs of state is a concept foreign to Steuart. The authority who masters the scientific principles for a good management of the national economy is naturally called upon to exercise his full powers in determining the general orientations to be followed by all the citizens. In this context, any democratic interplay of concertation and participation proves totally superfluous. The *statesman* can, for example, call on such constraining instruments of economic policy as the execution of great public works such as the pyramids of Egypt. For Hegel, on the other hand, such works embody 'the symbols of tyranny' (ibid.: 249). They are the very sign of the absence of reconciliation between a people and their natural surroundings.

These observations led Hegel to a much deeper reflection than Steuart about the concept of free work. In fact, free work is not exclusively interesting from the point of view of economic efficiency as the condition for abundant production. In modern society, with the development of the division of work, work becomes specialized; but this specialization makes free work more organically collective than the formally collective work of the age of the pyramids. The free worker of modern society, in the almost exclusive particularity of his specialized work, is in fact included into a 'collective operation', without necessarily being aware of it himself. The dialectics of wants and of economic activity operate through the reinforcement of two apparently contradictory principles: singularization and socialization. Modern states, precisely in their imperfection and because of it, are complex and dynamic wholes in which this contradiction is relatively superseded (*aufgehoben*).

Hence Hegel's interest in Smith:

Hegel sees in Smith, more distinctly than in Steuart, the conception of an economic world ruled by an automatism apt to make it the object of a quite separate science. More clearly than the *Staatswirtschaft*, Smith and his school show the elements of rationality inherent in economy: '*dies Scheinen der Vernünftigkeit*'.
(Chamley 1965b:254)

Smith's separation between economy and the State corroborates Hegel's separation between civil society and the State. Indeed, civil society is defined by the philosopher as the system of wants, that is as the area of work and

economic activity. The economic agent who is active within civil society acquires, through his work or his economic activity, a strictly positive social identity which does not weaken the identity the same individual assumes as a citizen within the State: 'Between the individual and the State there may develop, for the first time in history, an antithesis where the freedom of the former, far from destroying the latter, provides it with an infinite force' (ibid.: 252). Smith's analysis must have profoundly impressed Hegel because, while conferring a specific and irreducible rationality to the economic order, Smith nevertheless subordinates it to the State. In Hegel's eyes, Smith thus provides the Aristotelian economic tradition with a certain scientific support' (ibid.: 254). Hegel's civil society is also presented as the place for the individual's economic emancipation through the dialectics of want. Within the system, this is a moment possessing an eminently positive status. But it is nevertheless subordinated to the State which, to the individual, embodies the concrete universality in which citizenship is attained.

With Steuart, the *Staatswirtschaft* incorporates the State and tends to absorb it. Smith, on the other hand, separates the economy and the State both in doctrine and in theory, making it easier for Hegel to relegate economy to a subordinate level, to leave it at its rank 'ganz in der Negativität'.

(Chamley 1965b:254–5)

We could, as a result, speak of Hegel's *Aufhebung* of Steuart by means of Smith. Just as the free individual worker is *aufgehoben* in a wider context, so Steuart is *aufgehoben* in a dialectic system that lends economic matters the greatest importance, yet subordinates them to the political authority.

The Hegelian dialectics and Steuart

Hegel's dialectics are based on a fundamental opposition between two types of reason, *der Verstand* and *die Vernunft*, understanding and dialectical reason. Understanding is the analytical faculty *par excellence*, which is governed by the principle of identity and presides over scientific investigation. Understanding divides, separates, dissects and dissolves. On the other hand, dialectical reason is the synthetic force governing reality in the sense of *Wirklichkeit*. Dialectical reason unites, rearticulates and recomposes the elements which the understanding has separated by congealing them into abstract, solitary identities. Steuart, incidentally like Hegel, classes the former type of reason with dogmatic reason, which

proceeds by deduction from *a priori* principles. On the other hand, considering all the elements and their transformation in the course

of history, dialectical reason appears to contradict itself, although in reality it dispels the contradictions between dogmatic propositions.
(Chamley 1963b:108)

Steuart uses the term *reason* to designate the kind of reason 'that commands the dialectics of history': 'The general principle I have stated is in my opinion far more reasonable than that imaginary agreement and corresponds equally well with the spirit of a free government' (Chamley 1963b:109). And a luminous and unexpected remark: *Die Natur kann nie mit der gesunden Vernunft im Widerspruch sein* ('Nature can never be at variance with common sense') seems to anticipate Hegel's well-known dictum: *Was vernünftig ist, das ist wirklich; und was wirklich ist, das ist vernünftig* (what is reasonable is real, and what is real is reasonable) (ibid.).

According to Chamley, a particular feature of Steuart's system attracted Hegel's utmost attention: the fact that this system is essentially a theory of evolution. For Steuart, every economy goes through three stages. These are 'the succession of the three principles of organization enabling us to describe this process as the necessary sequence corresponding with the succession of the three ages in human life' (Chamley 1963b:60): *Ich teile die Handlung ab in die Handlung in ihrer Kindheit, in die auswärtige und in die inländische Handlung* ('I divide up trade into trade in its infancy, foreign and inland trade'). The beginning of trade (*infancy*) corresponds with the first period of dialectics, the period of the *an-sich* ('in itself'). Foreign trade (*auswärtige Handlung*) represents the period of economic growth *par excellence* and corresponds with the *für-sich* ('for itself') phase of dialectics. And inland trade (*inländische Handlung*) is the nation's return to itself, having now reached the economic dimensions of autarky; this last period corresponds with the *bei-sich* ('by itself') phase.

The first stage of trade corresponds with a non-developed economy lacking in monetary and industrial capital, and technical know-how. The satisfaction of needs relies exclusively on agricultural production. The economy develops on the basis of nature and immediacy. The extent of needs is narrowly defined and limited by the spontaneous fruits of nature. Socio-economic life on the whole follows a repetitive rhythm, the rhythm of simple reproduction. There is no sizeable surplus that might support the slightest economic growth. The system suffices unto itself, it is satisfied with itself and remains identical with itself; it is 'in itself'.

From this immediacy, there are two possibilities of development: an autonomous development and an induced one. Steuart remarks that the autonomous form of development is both slow and difficult to start. Indeed, in the palingenesis which characterizes trade in its infancy, the initiatives that might introduce an evolutionary innovation into the system would come up against stiff resistance on behalf of the forces of routine whose major aim is to preserve the status quo. Induced development is the dynamic form of

development, but it involves a contradiction. The country that wishes to depart from the simple reproduction of the first phase must follow the example of more advanced nations, who will thus exercise a stimulating effect on it. But at the same time, these advanced countries occupy a position of economic domination on the international level. This position creates a competitive imbalance to the detriment of the imitating country. There are two ways of redressing the balance: On the one hand, by intensifying competition between the advanced countries, and on the other, by calling on the genius of the *statesman* to adopt the appropriate political and economic measures, and ensure a smooth transition from the first to the second stage. The *statesman* must indeed support the effort to industrialize the country, he must open national companies to external competition, if necessary through educational protectionism. Steuart's point of view regarding development and, in particular, the possible conditions for industrializing a non-progressive country are singularly close to the theories developed almost a century later by Friedrich List.

Steuart's considerations regarding the second stage of the general development of trade in a country can be transposed into Hegelian terminology. The for-itself (*für-sich*) stage corresponds with a being moving outside of itself. This going out of oneself necessarily implies a violence exerted on what is given as identical to oneself, that is the in-itself. The development that constitutes the successive realization of the being's virtual forces assumes, in Hegelian terms, the work of the negative. The latter cannot allow being to settle into a particular figure; hence the continual negation of the figures realized. Since the potentiality of being is infinite, any negation of a particular identity of being gives rise to a new potential identity:

To realize its potentialities, to proceed 'from the night of the possible to the day of the present', a nation has to reach the stage of foreign trade. In doing so, it exteriorizes itself. Like the *Geist* of *Phenomenology*, it goes out of itself to go into the world.... But the nation also alienates itself in this trade, by way of the work it exports and sells. In a limited sense, it constantly recovers from this alienation through the compensation it receives. But this compensation gives rise to further alienation.... However, this development is as yet merely its external reality.

(Chamley 1963b:110–12)

But with the gradual development of the country, the law of diminishing returns takes effect and production tends to stagnate, especially in the field of agriculture. As for industry, the stagnation of production is essentially due to the gradual shortage of manpower. At the same time, economic prosperity stimulates luxury, and the products manufactured respond less and less to international demand. The convergence of these factors necessarily

brings about a decline in active external trade. The country then enters a phase of internal trade. The *statesman* will consequently have to muster all his art of governing and all his know-how to preserve the economic level reached during the previous phase. 'At this crucial moment, everything depends on the skill of the statesman. The trial may be withstood and the State may come out of it with renewed strength and without necessarily jeopardizing the level of wealth attained' (Chamley 1963b:66).

Hegel also has an interpretation to offer for this last stage of trade. As a nation develops throughout its phase of external trade, it evolves in a permanent process of alienation. It is continually outside itself; a constant, powerful feeling of discontent with itself keeps projecting it outside. As long as this need for the outside continues, as long as it hopes to achieve satisfaction with itself outside of itself, in an external reality, as long as the self cannot fulfil the desire of recognizing itself—in short, as long as a sense of some fundamental deficiency persists within it—the nation will be doomed to share the lot of what Hegel calls the 'unhappy conscience'. Thus if a nation

wants to attain what it still lacks, it has to make a fundamental effort to recover from its exteriorization in the world. This is the third phase, the Aristotelian phase. The nation is henceforth essentially sufficient unto itself, but with the difference that it has risen to the degree of a superior being and has reached a real fullness in wealth and population that it can and must preserve.

(Chamley 1963b:112)

This is the realization of the ideal Aristotelian autarky. The nation overcomes the state of unhappy conscience; it finds itself near itself again, fully satisfied with all the figures (i.e. riches) that the for-itself stage of the second phase has extracted from virtuality to actualize within the real world, as *Wirklichkeit*:

The nation's forces were until then dispersed in the outside world, through its exchange relations and its commercial investments. It is through one and the same act that it re-assembles in itself these elements of its reality and that it achieves self-consciousness: it grows conscious of its wealth, and this wealth makes it both possible and necessary to develop the State.

(Chamley 1963b:113)

Steuart's ideas about dominating relationships among nations and the necessary inequality of exchange in this kind of context must have held Hegel's attention. On the subject of external exchange, these ideas must have appeared much more realistic to a mind that paid greater attention to the 'negative effect' than the theory of classical authors regarding comparative advantages. This theory tries to prove, in effect, that

the equilibrium of international exchange is possible under practically all conditions and that all the participating countries benefit from this exchange, even if one of them finds itself inferior in every branch of production: all that needs to be done is to reduce the salaries of these countries accordingly.

(Chamley 1963b:77)

If one were to describe Hegel's socio-political vision with one adjective, one might use the word 'realistic'. And the demystifying realism of Stuart could not fail to attract him when he went so far as to assert that 'what makes up the perfection of modern States is their imperfection'. Indeed, according to Stuart the classical economists commit a grave mistake when they shut their eyes to the following truth:

in a free-trade system, relations between unequally developed States are necessarily dominating relations.... Under these conditions, to say that international inequality of revenues does not prevent a balance of trade in accounting terms is merely an aesthetic consolation: too low revenues prevent the emergence of a sufficiently 'effectual demand' to start off the process of development.

(Chamley 1963b:77-8)

But Hegel's realism does not lapse into pessimism, as is the case with Stuart. The 'guile of reason' hardly works like spontaneous automatism, independent of all conditions of possibility. A minimum number of conditions are required for a collective advantage to emerge from a multitude of particular contradictory and opposing strategies. Stuart, being ultimately a mercantilist, admits without further ado that 'the advantage of some is the disadvantage of others' (Chamley 1963b:76). In fact, Stuart thought that 'exchange is at the service of wealth, not of revenue' (*ibid.*). This means that the advantage of exchange 'is appreciated in terms of enrichment or impoverishment; its issue is domination' (*ibid.*). However, domination cannot be the ultimate and definitive destination of foreign trade, for the nations that have reached a certain level of development can maintain relatively balanced exchange relations amongst themselves. And the theory of comparative costs can then partially, but efficiently, govern external exchange.

In conclusion, it should be pointed out that 'the relationship between Stuart and Hegel is not that of a simple dependence.... The relation between Stuart and Hegel is Hegelian' (Chamley 1965a:91). It is a kind of *Aufhebung*. In this sense, Hegel at the same time preserves, transcends and enhances Stuart's system. Following in Stuart's footsteps, Hegel gradually grows aware of the dialectics of wants. The multiplication of wants brings about a differentiation of society through the division of work. This diversification in its turn stimulates the social imagination to bring forth a proliferation of wants. There thus arises a movement feeding on its own dynamics:

This diversification of production...manifests itself objectively in the form of money, since money has the property of covering a diversity of goods under a general expression. But once it has been raised to this general level, the diversity of wants and of work will form within a great people a monstrous system of community and interdependence, animated by alternately blind and elementary movements that have to be constantly and energetically subdued like a wild animal.

(Chamley 1965a:92)

The development of the system of wants actually liberates men from their dependence on nature and from domination by other men. But this very development makes men more and more dependent on the social system. Their conscious and consenting dependence on the will of powerful men gives way to an unconscious dependence on a system of interdependence and reciprocity. But the socio-political reality is not merely reduced to a *bürgerliche Gesellschaft*. The members of modern states are not exclusively economic agents caught in the whirlpool of diversified needs and specialized work. They are also citizens conscious of belonging to a universal whole which is the State. In Steuart's political system this fundamental moment of dialectics is missing. The concept of citizen has no relevance with regard to the concept of *statesman*. To Hegel, on the contrary, the State represents the structure in which a member of civil society opens up to universal issues by becoming a citizen who feels responsible for the destiny of the city. Thanks to the State, the evil infinity of the monstrous system of wants is *aufgehoben* (transcended). Hegel goes back to the Aristotelian principle of economic subordination after having assimilated and transcended (*aufgehoben*) Steuart's economic theory.

Steuart and Keynes

Chamley's interest in the connection between Keynes and Steuart is of the same nature as the interest he takes in the Hegel-Steuart relationship. No explicit reference to Steuart can be found in Keynes's work. This silence does not appear innocent to Chamley. In his opinion, the author of the *General Theory* must have intentionally omitted to quote the mercantilist economist. Here, again, we have a strong assumption, in defence of which Chamley uses certain arguments that perplex the reader.

Chapter 23 of the *General Theory* is, as we know, devoted to the mercantilist authors whom Keynes considered to be the forerunners of his theory. Keynes credits these mercantilist authors with a certain number of discoveries in political economy, namely:

- an excessive interest rate is a major obstacle against growth;
- too much competition is a factor that may deteriorate the terms of international exchange for a nation;

- the correlation between employment, a protectionist policy and a favourable trade balance;
- the opposed interests of different nations regarding international exchange;
- the importance of demand with regard to employment.

According to Chamley, all these elements have been mentioned by Stuart. Yet Chapter 23 contains no reference to the author of the *Inquiry*. It is true that one of the fundamental sources of Keynes in this chapter is Eli Heckscher's work, *Mercantilism*, and the bibliography of this author does not mention Stuart either. To Chamley, however, the omission is more surprising in Keynes than in Heckscher, because between the author of the *General Theory* and the author of the *Inquiry* there exist 'affinities in both content and form'.

As far as content is concerned, Stuart expressed himself on all the themes enumerated above 'in a clearer and more vigorous form than the authors mentioned by Keynes' (Chamley 1962:305). On interest rates, on exchange transactions, on the relationship between external exchange and employment rates, Stuart develops points of views that are very close to Keynes's. There are also other themes, such as:

- the need for a constant adjustment between the spending tendency of the rich and the productive capacity of the working classes;
- the State as a means to increase the effectual demand;
- the redistribution of revenue through taxes with a view to increasing the propensity to spend.

With regard to form, there are also striking affinities. To begin with, the idea that it is better to undertake even needless works to support employment is mentioned in Stuart. And on this subject the mercantilist author refers to the example of the Egyptian pyramids. The same idea is also found in R.F.Kahn under the kinds of 'holes to fill up', and, in mentioning him, Keynes also refers to the pyramids (Chamley 1962:308–9). Second, the term 'full employment', which is a key term in Keynes, is also found in Stuart. It must be pointed out that the way Stuart uses this term leaves no doubt as to the meaning he ascribes to it, namely the employment of all men, and not simply the full-time employment of men (*ibid.*: 309). And finally, the term 'propension to consume', another key term in the *General Theory*, is used in the *Inquiry*. This term, it is true, appears in the form 'propension of the rich to consume', but the context leaves no doubt about the fact that what Stuart had in mind was a fear about the low-spending disposition of the rich. What surprises Chamley is that in connection with this term Keynes quotes Malthus and his expression 'the will to consume'. But a comparison of the texts reveals, according to our author, that the passage quoted from Malthus 'was manifestly inspired by Stuart' (*ibid.*: 310). Chamley's conclusion is singular:

It is all the more curious that, going back as it were to the source over the head of Malthus, as we saw him go over the head of Kahn just now, Keynes reverts to Steuart's expression: 'the propensity to consume.

(Chamley 1962:310)

All this is disturbing and intriguing. What are we to think? By never mentioning Steuart's name, Keynes adopts an attitude which, according to Chamley, can be qualified as either 'ridiculous' or 'mystifying' (Chamley 1962:311). Chamley tends to opt for the second hypothesis. To his mind, Keynes renews an old tradition of 'ostracism' with regard to Steuart. The political past of the latter might supply an element of explanation: 'Steuart is a Stuart' (ibid.: 312). Indeed, in the political sphere, Steuart has always inspired mistrust and suspicion. Now we know that the author of the *General Theory* presents his system as an alternative to Marxist socialism. It is a system that advocates full employment. The economist who had already advocated a policy of full employment in the past was none other than Steuart. But 'Steuart is a Stuart'; his system is alarming because it bears an authoritarian, or even totalitarian character. The figure of the *statesman* never inspired the liberal readers of the mercantilist author with much sympathy. By referring to Steuart, and more particularly, by quoting him as an authority, Keynes ran the risk of having his system associated with political positions of a totalitarian type. Might not the readers of the *General Theory* ask themselves what ideological premises could underlie a theoretical effort aiming to combat Marxist socialism, when the policy advocated to take its place was none other than an authoritarian paternalism à la Steuart? Chamley writes:

Keynes put his hope on a régime of liberty. But there was an evident danger of being misunderstood. Under these conditions Steuart, with his virtually omniscient and omnipresent 'statesman', would have been all the more compromising as a forerunner for Keynes because his doctrine showed a close kinship with the *General Theory*.

(Chamley 1962:313)

In a reply to this thesis, Paul Lambert challenges Chamley's conclusions. Lambert thinks that Keynes's attitude with regard to Steuart is neither ridiculous nor mystifying. 'Keynes was hardly much of a reader, and was not at all keen on "*Dogmengeschichte*"' (Lambert 1963:105). As for Chapter 23 of the *General Theory*, Keynes's 'almost exclusive source' was Heckscher, who does not quote Steuart. So there is nothing surprising about the fact that the author of the *General Theory* should be unaware of the old mercantilist author; nor was there anything 'disgraceful' about it. Moreover, Lambert points out that Malthus used the expression 'the propensity to spend'. Together with 'the will to consume' one could also say 'the propensity to consume' (ibid.). There was no need to track down the formula in Steuart.

Chamley's reply is somewhat surprising. It is true, he says, that Keynes's essential source on the mercantilists was Heckscher. But Stuart could not have been 'a mere nobody' to Keynes:

from Keynes's own perspective, Stuart was the greatest of the mercantilists, he was closest to him than anyone else, it was he who had anticipated his doctrine wholesale. But like a clumsy gunman, he shoots quotations all around him without hitting him. Keynes misses Stuart by a hair, or else he pretends to do so.

(Chamley 1963a:106)

There is no middle course for Chamley: Keynes either read Stuart or didn't. And yet 'by every imaginable road, Keynes moves in Stuart's direction, but a kind of instinct or providentially calculated ignorance keeps him infallibly away from this meeting' (ibid.: 107). Under these circumstances, it is impossible to subscribe to Lambert's thesis that Keynes had simply not known Stuart. We have to adhere to the second hypothesis, namely that of a 'mystification'.

From there to suspecting Keynes of 'dishonesty' is only another step. Not that Chamley actually took it. But the signs or symptoms of Keynes having actually known Stuart's work were too obvious, too insistent in Chamley's eyes. This awareness launched him into a kind of game of detectives to catch the suspect red-handed. He seemed to have given way to a passion to find out the secret. Indeed, this passion always inhabited Chamley: did the author he studied leave a trace anywhere of something he didn't want the public to know? It was a passion which unfortunately weakened his otherwise strict method and lucid analysis. Abandoning the structural study of the internal organization and coherence of the texts, his attention gradually drifted into a quest for the illusory secrets of the work's 'subject'. From an analysis of intimate correspondences, one may move towards an analysis of strategies. This passion for secrets sometimes causes devastation. Chamley did not hesitate to write, for instance: 'One cannot help noticing that the *General Theory* would immediately have lost much of its prestige if it had appeared from the outset as a particular case of the truly general theory formulated by Stuart' (Chamley 1963a:106 n.1). This is a distressing injustice to the enormous theoretical achievement of Keynes's work, especially the immense theoretical work constructed around the problematics of 'involuntary unemployment'. The mercantilist Stuart had nothing to do with this set of problems, since neither the historical context nor his theoretical or ideological concerns could have allowed him to give effective thought to the object analysed by the author of the *General Theory*. It is sad to note that the passion for secrets can sometimes mislead a mind to a point at which it loses sight of the difference between a simple word and a concept, between intuitions described as brilliant and problematics patiently worked out within a theory.

Notes

- 1 With this text the author wishes to pay tribute to Professor Paul Chamley whose lectures have been in every respect decisive in his intellectual training. Professor Chamley (1912–92) did most of his teaching and research in Strasbourg. A great expert on Steuart and Hegel, he is also the author of works on Hobbes, Locke, Hume and Montesquieu.

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ON THE METHOD OF
SIR JAMES STEUART'S
*PRINCIPLES OF POLITICAL
ECONOMY*

Noboru Kobayashi

The first system of a new science

Sir James Steuart not only constructed his great work *An Inquiry into the Principles of Political Economy*¹ with a clear understanding of his methodology, but also expressed that understanding in some detail. In this latter point lies the great difference between the *Principles* and Adam Smith's *Wealth of Nations*, despite the clear similarity of these two Scottish Enlightenment authors in their historicism in the broad sense of the term.

Steuart was well aware that his *Principles* was the first system in the emerging field of study called political economy. Indeed, neither Cantillon nor Quesnay could compete with this masterpiece's extensive systematization. In the preface to the *Principles*, Steuart says: 'It is with the great diffidence that I present to the public this attempt toward reducing to principles, and forming into a regular science, the complicated interests of domestic policy' (1 v).

This was, regardless of the outcome, no less than 'an attempt of the greatest importance to mankind' (ibid.), a declaration of independence from the *De l'esprit des lois* by 'the great Montesquieu' (ibid.: 1 89) to foray into a new area of social science. Books I and II, the core of the *Principles*, had already been completed in Tübingen in 1759, the same year that Smith first published *The Theory of Moral Sentiments* and Quesnay's *Tableau économique* became widely known in its third edition. (Although Richard Cantillon's small systematic work *Essai sur la nature du commerce en general* came out in 1755, the *Principles* makes no mention of it.) Steuart therefore felt it necessary to offer the reader a guide to the new academic system that he had established, and this same reasoning was perhaps behind the repeated methodological reflections and descriptions which reoccur in this work. Smith, by contrast, regardless of his evaluation of the *Principles* methodology, found it too arduous to preface his *Wealth of Nations* with any methodological statement

and launched straight into a concrete and interesting description of the division of labour in manufacture.

Steuart writes in his preface, as if on a door opening on to the field of a new science:

It [this work] goes little farther than to collect and arrange some elements relating to the most interesting branches of modern policy, such as population, agriculture, trade, industry, money, coin, interest, circulation, banks, exchange, public credit and taxes. The principles deduced from all these topics appear tolerably consistent; and the whole is a train of reasoning, through which I have adhered to the connection of subjects as faithfully as I could: but the nature of the work being a deduction of principles, not a collection of institutions, I seized the opportunities which my reasoning threw in my way, to connect every principle...with every part of the inquiry to which it could refer;... /Had I been master of my subject on setting out, the arrangement of the whole could have been rendered more concise: but had this been the case, I should never have been able to go through the painful deduction which forms the whole chain of my reasoning.

(1 x–xi)

Thus, political economy was initially established as a deductive discipline, but, as can also be said of the *Wealth of Nations*, because the *Principles* was not intended as a textbook, the deductive process therein was a kind of theoretical struggle and descriptions consequently became rather verbose.²

That this deductive method can be applied to the science of political economy is due to the formation of a regular system quite different from that inherent in the stricter discipline of law (cf. 2 241). More detailed consideration of this point will be made later. Regularity in economic systems is formed because the laws of nature operate through people's self-interest (cf. 1 221). Moreover, such laws are of a general nature. 'Thus it is that circumstances influence our decisions upon all political matters; and principles well deduced do not cease to be true, although they appear contradictory to experience, in cases where every circumstance is not exactly known' (2 388). 'People who barely relate political facts afford only an exercise of the memory: those who deduce principles, and trace a chain of reasoning from them, give exercise to the understanding' (4 16).

However, deduction in the social sciences is, of course, developed on the basis of facts. The principles of political economy are derived through 'observation and reflection' (cf. 1 4). The co-existence or compatibility of 'experience and reason' makes it possible to reject blind obedience to authority and dogmatism (1 xv), while the significance of observation and experience in such a case will require that attention is paid to 'concomitant

circumstances' and the Variety of circumstances' in every stage of deduction. This is because their existence can on occasion reduce 'general rules' to be of little use (cf. 1 xii).

Every thing which points out relations is useful; because we know nothing but through this channel. Now certain relations are too frequently taken for granted, whereas nothing is more essential in political reasoning, than to point them out clearly, to proceed by the shortest steps when we draw a conclusion from a general proposition, and still to keep experience and matters of fact before our eyes. Let the conclusion appear ever so just, if, when compared with experience, a disagreement shall appear, it is ten to one we have overlooked some circumstance, which ought to have entered into the combination.

(2 121)

This word 'combination' appears frequently in the *Principles*, and the grand deduction which the *Principles* comprises could in fact be described as the process of complicated combinations of the various principles, with the theory behind each combination to be tested and proved as an accurate induction.

The deductive system of the *Principles*, therefore, consciously avoids becoming merely another unrealistic if rather smart system. Rejecting 'what the French call Systemes', Steuart states: 'These are no more than a chain of contingent consequences, drawn from a few fundamental maxims, adopted, perhaps, rashly. Such systems are mere conceits; they mislead the understanding and efface the path to truth' (1 xii).

To the one fair copy presented to Lady M.W.Montagu of the three (surviving) copies of Books I and II of the 1759 *Principles* is attached a dedication closely resembling the preface to the first edition,³ which already contains a criticism of system as dogma, suggesting that the *Principles* did not reject the *Tableau économique* along with the term 'system'. On the other hand, no mention is made to physiocracy in either the completed first edition or the notes for the planned second edition of the *Principles*. Furthermore, Steuart himself believed his great system to be a sketch of what a real system should be: 'I pretend to form no system, but, by tracing out a succession of principles, consistent with the nature of man and with one another, I shall endeavour to furnish some materials towards the forming of a good one' (1 7).

The spirit of a people

An economic system with this breadth and thoroughness will obviously not be able to respond to the policy needs of a particular economy. Even if there were a nation ready to stand at the forefront of world history, it would be

inadequate, not to mention inappropriate, to use this as the single model on which to base the depiction of an entire economic system. Steuart spent twenty-two years of his life in Holland, Flanders, France, Spain, Italy and Germany as a student and as an exile, and was accordingly deeply influenced by Montesquieu's works. In his youth, Steuart's studies centred around history and jurisprudence, but, of the historicists of the Scottish Enlightenment, Steuart could be said to bear the strongest stamp of Montesquieu's thought in his idea of the 'spirit of a people' (Book I, chap. II).⁴ His political economy focused essentially on the world of the European *nations*, which he treated, moreover, as one unit in terms of trade and finance. Indeed, what the *Principles* sought to grasp was 'the political economy of Europe' (1 206).

As stated above, Steuart's understanding was that political economy also needed to give consideration to the 'spirit of a people', unique to each nation:

If one considers the variety which is found in different countries, in the distribution of property, subordination of classes, genius of the people, proceeding from the variety of forms of government, laws, climate and manners, one may conclude that the political œconomy in each must necessarily be different, and that principles, however universally true, may become quite ineffectual in practice, without a sufficient preparation of the spirit of a people.

(1 3–4)

The spirit of a people is formed upon a set of received opinions relative to three objects: morals, government and manners: these once generally adopted by any society, confirmed by long and constant habit, and never called in to question, form the basis of all laws, regulate the form of every government and determine what is commonly called the customs of a country.

(1 10)

Of these three objects, the first (namely morals) is the easiest to grasp, the second (government) comparatively difficult to understand, and the third (manners) of indeterminable origin.

However, while sufficient thought must be given to the spirit of a people, at the same time the would-be establisher of political economy as a science must avoid favouring the spirit of one particular nation and hold fast to the standpoint of a 'citizen of the world' (cf. 1 4).⁵ He must keep himself aloof from the life of a town, seeking to look down on the town from the top of a tall belfry.⁶ This was why Steuart sought to avoid British and Scottish prejudices, taking advantage of the 'wandering and independent life' given him to 'judge of absent things by the absent' (cf. 1 vii–viii, xv–xvi)—although it is also true that the detail of his description of the English situation in Books I to II was insufficient.

Furthermore, as this citizen of the world is a scientist, it is not his duty to make ethical judgements on the subject, as such judgements would disallow his propositions as those which ‘must be assented to *universally*’ (I xiii). For example, on the subject of luxury, which had been a long-term issue in the learned world, Steuart says:

Luxury, says one, is compatible with the prosperity of a state. Luxury is the foundation of a nation’s wealth and happiness, says another. There may, in reality, be no difference in the sentiments of those two persons. The first may consider luxury as prejudicial to foreign trade, and as corrupting the morals of a people. The other may consider luxury as the means of providing employment for such as must live by their industry, and of promoting an equable circulation of wealth and subsistence, through all the classes of inhabitants. If each of them had attended to the other’s complex idea of luxury, with all its consequences, they would have rendered their propositions less general.

(1 xiii–xiv)

While David Hume’s *Political Discourses* (1752) gave general coverage to this subject, it was the *Principles* that signalled a real break from Mandeville’s assertion.

Something of a similar nature may be observed in the *Principles*’ approach to interest: ‘I shall leave it to divines and casuists to determine how far the exacting of interest for money is lawful, according to the principles of our religion’ (3 152–3). This argument is perhaps not as fresh in terms of the history of economic thought as is that concerning luxury—the debate on the righteousness of usury having been as good as settled in late sixteenth-century Britain—but the frankness and bluntness of Steuart’s expression merit attention. As W.Hasbach of the German Historical School of Economics pointed out very early on, Smith and Steuart take a diametrically opposite approach to the relation between economic systems and ethical thought, with the *Wealth of Nations* being supported on the basis of ethics (*The Theory of Moral Sentiments*) where the *Principles* was an attempt to make political economy independent of ethical issues:

Unter der Hand aber verwandelt sich Sir James Steuart die praktische Wissenschaft in eine theoretische, zu einer Darstellung der Pinzipien der politischen Ökonomie, welche durch Beobachtung und Vergleichung gefunden werden.... /Ebenso wichtig ist es, dass er sich auf seine Aufgabe klargesinnt, die ihm nichts mit der Moralphilosophie oder Politik im engern Sinn zu thun zu haben scheint. [Sir James Steuart implicitly transforms practical knowledge into theoretical science. Such a representation of the principles of

political economy is arrived at from comparisons and observations.... As important is the fact that his work is firmly inscribed into a specific general framework which excludes any links with either moral philosophy or policy in a narrow-minded sense.]

(Hasbach 1891: pp. 228–9; our translation)

With this judgement, Hasbach clearly points to Steuart as *der Begründer der politischen Ökonomie* ('the founder of political economy').

From this point of view, therefore, each individual in Steuart's economic world becomes an atom without 'the judge within' or 'the demigod within the breast', such as in Smith's theory, a homo oeconomicus motivated purely by self-interest throughout. What can be detected in this approach is, on the one hand, the Pufendorf tradition, and on the other, a Schumpeter-like methodological individualism. The *Principles* states in the introduction to Book II:

The principle of self-interest will serve as a general key to this inquiry; and it may, in one sense, be considered as the ruling principle of my subject, and may therefore be traced throughout the whole.

(1 218)

The best way to govern a society, and to engage every one to conduct himself according to a plan, is for the statesman [this term to be discussed below] to form a system of administration, the most consistent possible with the interest of every individual, and never to flatter himself that his people will be brought to act in general, and in matters which purely regard the public, from any other principle than private interest. This is the utmost length to which I pretend to carry my position.

(1 220)

Public spirit...is as superfluous in the governed,...it is fully as much so, as miracles are in a religion once fully established.... Were miracles wrought every day, the laws of nature would no longer be laws: and were every one to act for the public, and neglect himself, the statesman would be bewildered, and the supposition is ridiculous.

(1 220–1)

But how is one to reconcile the deductive method of a 'regular science' and a 'regular system', awareness of 'the law of nature' and the 'citizen of the world' standpoint with such approaches as respect for 'experience and reason' and 'the spirit of a people'? How is one to synthesize the respective problems of economically developed and under-developed nations? How does the methodology of the *Principles* address these difficult questions?

The spirit of modern times

In this regard, the following statement in the *Principles* is perhaps the most noteworthy:

If government be taken in general, we shall find them analogous to the spirit of the people. But the point under consideration is, how a statesman is to proceed, when expediency and refinement require a change of administration, or when it becomes necessary from a change of circumstances. /The great alteration in the affairs of Europe within these three centuries, by the discovery of America and the Indies, the springing up of industry and learning, the introduction of trade and the luxurious arts, the establishment of public credit, / and a general system of taxation, have *entirely* altered the plan of government *everywhere*. From feudal and military, it is become free and commercial. I oppose freedom in government to the feudal system, to mark only that there is not found now that chain of subordination among the subjects, which made the essential part of the feudal form.... Now *every industrious man*, who lives with œconomy, is free and independent *under most forms of government*.
(1 13–14; italics added)

Here it is clearly the understanding of the *Principles* that the major political and economic changes and modernization in the European world were, first, based upon industrious people, and second, common to all European countries. Historical development is treated as an all-encompassing flow, an energy, while the spirit of the people is the disparate factor within this flow. This is the historicism of the *Principles*, which goes beyond mere relativism and supports the *Principles*' deductive structure, making the first economic system methodologically independent of Montesquieu's legal system. Stuart states consciously that:

If you abstract from...natural advantages, all nations are upon an equal footing as to trade. Industry and labour are no properties attached to place, any more than œconomy and sobriety. /This proposition may be called in question, upon the principle of M. de Montesquieu, who deduces the origins of many laws, customs and even religions, from the influence of climate...; but in my method of treating this subject, I do not suppose that these causes are ever to be allowed to produce their natural and immediate effects, when such effects would be followed by a political inconvenience.
(1 363)

One detects here the echo of the anti-Montesquieu approach Hume takes in

the third edition (1748) of his *Essays, Moral and Political*, indicating Steuart's deep involvement in the unique stream of historicism within the Scottish Enlightenment as the creator of a new academic field. Steuart was conscious of his historical approach, and accordingly, at the end of the chapter containing the above statement on Europe's modernization (Book I, chap. 2), he outlines the development in each book of the *Principles*, which he claims follows the order of historical development, and then writes:

By this kind of historical clue, I shall conduct myself through the great avenues of this extensive labyrinth; and in my review of every particular district, I shall step from consequence to consequence, until I have penetrated into the inmost recesses of my own understanding.

(1 21)

In the *Principles*, then, the term 'the spirit of a people', which has a rather national or ethnic meaning, often stands in contrast with terms indicating a modern universal spirit, such as the 'spirit of present times' (1 82), the 'spirit of modern times' (2 121), the 'spirit of liberty' (1 35), the 'spirit of European liberty' (1 227), the 'spirit of industry' (1 157), etc. Accordingly, the following kinds of words and phrases also appear frequently: 'free men' (1 211); 'free society' (1 237); 'free modern governments' (1 xvii); 'free, industrious and laborious Europeans' (1 39); 'modern liberty' (1 319); 'modern system of trade and industry' (1 326); 'modern system of political œconomy' (4 365); 'the times of industry' (2 29), etc. Steuart's classical historical consciousness is quite apparent in the use of these terms.

It has been pointed out that Steuart does not share the four-stage theories of Smith and Turgot, as he has grouped together the hunting and pastoral stages as the first stage, and treated the agricultural stage as the second (Hutchison 1988:339–40). However, general theories on stages of development, and particularly on early stages of development, are not of such great importance in systems of political economy. More noteworthy is the way in which the *Principles* goes further than so-called conjectural history in closing in on two historical points, namely a consciousness of, first, the difference in the significance of money in the classical and modern ages, and, second, the transition from feudalism to a modern merchandise-producing society.

In Book I of the *Principles*, where Steuart picks up the debate between Wallace and Hume on population, Steuart criticizes Wallace's argument, and yet, while basing his ideas on the theory of the division of agriculture and industry on Hume's *Political Discourses*, shows no interest in Hume's convincing argument on the sparsity of population in the classical age. Steuart in fact analyses population growth in ancient and modern ages, and given this position, could well have accepted Wallace's assertion as to the 'populousness of the old world' (1 49). He says:

At present, there is demand for the ingenuity of man; then, there was a demand for his person and service. Now, provided there be a demand for man, whatever use he be put to, the species will multiply. (ibid.)

In the old world the principles [that man is maintained by food] were the same, but the spirit of nations was different. Princes wanted to have numerous armies. Free states sought for power in the number of their citizens. The wants of mankind being few, and the simplicity of manners established, to have encouraged industry... would have been an inconsistency.

(1 50)

Most scholars of the Enlightenment believed that ‘industry’ was the engine behind the movement of modern society, but this consciousness was stated most clearly and in greatest detail in the *Principles*. The above passage continues: To make mankind labour beyond their wants, to make one part of a state work to maintain the other gratuitously, could only be brought about by slavery, and slavery was therefore introduced universally’ (1 50).

From these principles it appears, that slavery in former times had the same effect in peopling the world that trade and industry have now. *Men were then forced to labour because they were slaves to others; men are now forced to labour because they are slaves to their own wants.*

(1 52)

On the basis of this consciousness, Steuart had already noted that there had been a monetary economy—the exchange of goods using money as the medium⁷—since the patriarchal age of the Old Testament, which indicates how far his academic field went beyond simple stage theories. However, Steuart emphasizes that in general the currency circulation in ancient times was not supported by the industry and trade of the bulk of producers. Drawing attention to ‘the different effects of luxury’ (i.e. the outlay of money on goods other than the necessities of life), he argues:

Ancient luxury was [having belonged to those with power] quite arbitrary; consequently could be laid under no limitations, but produced the worst effects, which naturally and mechanically could proceed from it... /Modern luxury is systematical; it cannot make one step, but at the expense of an adequate equivalent [i.e. money], acquired by those who stand the most in need of the protection and assistance of the fellow citizens; and without producing a vibration in the balance of their wealth.

(1 430)

In the *Principles*, the accumulation of wealth or money in ancient times too is seen as the result of industry in cities such as Sydon, Tyre, Carthage, Athens and Alexandria, while it is viewed as the result of plunder in great empires such as Babylon, Persia, Rome, etc. Steuart maintains, however, that this ancient principle made it utterly impossible to defend those cities.

Foundation of modern society

How did the historical perspective of the *Principles* depict the transition from feudalism to the modern merchandise-producing society? To give a rather long citation:

[Under the feudal system] the personal service of the vassals, with their cattle and servants upon all occasions, made the power and wealth of the lords, and their rents were mostly paid in kind.... Towns were situated round their habitations. These were mostly composed of the few tradesmen and manufacturers that were in the country.... /Cities were the residence of bishops.... They procured privileges to their cities, and these communities formed themselves by degrees into small republics:... /In some countries of Europe, as in Germany, the principal citizens, in times, became patricians. In France...the representatives of the citizens were even admitted into the states, and formed the *tiers état*. Elsewhere they received casual marks of distinction from the sovereign, as the Lord Mayor of London does to this day usually receive knighthood.... / Upon the discovery of America and East-Indies, industry, trade and luxury, were soon introduced in the kingdoms of Spain, France and England.... The courts of princes then became magnificent; the feudal lords insensibly began to frequent them with more assiduity than formerly.... They became acquainted...and every one proposed to have a house in the capital. [Populations increased in the towns, whereas provinces emptied out, leaving only the aged.] /This is no doubt a plain consequence of a sudden revolution, which can never happen without being attended with great inconveniences.

(1 65ff.)

The passage following this fluent description of the rise of towns, trade and absolute monarchy is of particular interest:

Many of the numerous attendants of the nobility who uselessly filled every house and habitation belonging to the great man, were starving for want. He was at court, and calling aloud for money, a thing he was seldom accustomed to have occasion for, except to lock up in his chest. In order to procure this money, he found it expedient to

convert a portion of the personal services of his vassals into cash: by this he lost his authority. He then looked for a farmer (not a husbandman)⁸ for an estate which he formerly consumed in its fruits. This undertaker, as I may call him, began by dismissing idle mouths. Still greater complaints ensued. At last, the money spent in the city began to flow into the hands of the industrious: this raised an emulation, and the children of the miserable, who had felt the sad effects of the revolution, but who could not foresee the consequences, began to profit by it.

(1 68)

As can be seen from the above, Steuart sees the monetary economy, which was revived and expanded through the rise of Middle-Age towns and the formation of absolute monarchy, forcing the dispersion of the vassals of lords/landowners and the rationalization of agricultural management. The farmers of the above quotation, who historically can be placed toward the end of the Middle Ages and the dawn of modern times, were, according to the *Principles*, that class which stood at the point where agriculture and industry separated and were moreover the first embodiment of free, independent and profit-bearing industry. Although the first book of the *Principles* has the pursuit of this separation of farmers and workmen targeting ‘society in the cradle’, insofar as the trade issue had not been introduced (cf. 1 20), these farmers are in fact at the root of the development of modern society. In this sense, the *Principles* demonstrates more consistent historical methodology than that of the *Wealth of Nations*, which places primitive hunters of deer and beavers at the inception of the labour theory of value.

The above description in the *Principles* brings to mind a detailed and vivid historical description which appears in Book III, Chapter 4 of the *Wealth of Nations*. This looks at how the permeation of money from towns into the countryside in the Middle Ages led to, on the one hand, major landlords dismissing vassals who had become unnecessary, and on the other, giving farmers long-term leases. These farmers paid their rent by selling their produce to local markets, and in the *Wealth of Nations*, therefore, it is the childish vanity of the great landlords and their appetite for consumption, as well as the worthless ‘pedler principle’ of merchants and artificers, which lies behind the formation of the independent farmer class/yeoman, the font of modern society, thus bringing about an unforeseen historical transformation.

However, what lies behind this assumption is a theory on the natural order of capital utilization (i.e. agriculture>industry>domestic trade> foreign trade) which is peculiar to Smith. Smith takes the unique historical view that in Europe ‘after the fall of the Roman Empire’, this natural order was reversed (i.e. foreign trade>domestic trade>industry>agriculture) consequently impeding capital accumulation and the growth of productivity, until the simple human motives described above turn this reverse order back to its natural state. In

other words, in the course of history, the ‘invisible hand’ which is at work amidst, and controls the complexity of, human activities made use of vulgar human desire as what could be described as a *List der Vernunft* (Hegel). However, as one can easily find out today, Smith’s attempts to prove this theory on the natural order of capital utilization has proved to be full of defects and unable to be proven, and accordingly, it has to be said that, unlike Steuart’s work, Smith’s historical descriptions, which are based upon the above theory, are strewn with unusable elements. In addition, while there is no theory of capital accumulation in the *Principles*, it is clear from the above that this does not devalue Steuart’s view of the formation of modern society.

The *Principles* sees the rebirth of the monetary or merchandise economy as mainly motivated by the ‘discovery of America and the East-Indies’. However, the *Principles* makes this statement in relation to rapid expansion of world trade, whereas the endogenous forces of economic development in Europe are seen as far more significant than the effect of the influx of precious metals from the New World. Steuart argues:

In ancient times, money was not wanting; but the taste for superfluities not being in proportion to it, the specie was locked up. This was the case in Europe four hundred years ago. A new taste for superfluity has drawn, perhaps, more money into circulation, from our own treasures, than from the mines of the new world. The poor opinion we entertain of the riches of our forefathers, is founded upon the modern way of estimating wealth, by the quantity of coin in circulation, from which we conclude, that the greatest part of the specie now in our hands must have come from America.

(1 237–8)

The general taste for the extension of industry is what has brought such loads of money into circulation; not the discovery of America. We read of treasures in ancient times which appear to rival the wealth of modern Europe.... Therefore the wealth of America, has not been the cause of European refinement; but the extension of civil liberty has obliged the possessors of treasures, which in all ages have been coveted by man, to open their repositories, in order to purchase the service of those who formerly made a branch of the property of the most wealthy. This liberty is the foundation of trade and industry.

(2 140–1)

It is apparent from the above citations that Steuart cannot simply be described as a mercantilist, and that he looked back as far as classical times to examine the relation between treasure and commodity circulation. This awareness is also evident in the meticulous riposte contained in the *Principles* to Hume’s criticism of the balance of trade theory using the quantitative theory of money.

Steuart stresses that the existence of a large quantity of precious metals in the classical and Middle Ages was not *directly* related to the paltry products of the industry of the time, and that even in modern society such mechanical equivalence is impossible (cf. 2 135 ff.).

Liberty and regulation

I have tried to demonstrate that the *Principles* clearly addresses the laws of nature as woven from the self-interest of individuals as the subject of analysis. On the other hand, the ‘statesman’ is placed apart from individual citizens as a being filled with public spirit, directing the engine of self-interest with legal and administrative measures quite independent of the ‘invisible hand’ as he guides the industry-based monetary/merchandise economy in the direction of sound expansion.

The statesman, then, is ‘a general term to signify the legislative and supreme power’ (1 2–3), regardless of the political form this takes, while the assumption that he is filled with public spirit, like the assumption that the nation at large is filled with private interest, is a theoretical and methodological one. In contrast to the *Wealth of Nations* and the classical school that followed, this regulation of the economic process (control, intervention)⁹ is an evident characteristic of the *Principles*, and the science of political economy which it constructs assumes from the beginning that this detailed account of policy elements is indispensable. The said detailed account makes the *Principles* rather voluminous; on the other hand, the *Wealth of Nations* is made similarly voluminous through its refutation of this kind of regulation.

However, the interventionism, as it were, of the *Principles*, is not a naive and old-fashioned one but rather based on solid theoretical grounds; a flat denial thereof could well be imprudent. First of all, compared with a simple, solid Spartan system, the modern merchandise economy is complex, detailed and fragile:

It is of governments as of machines, the more they are simple, the more they are solid and lasting; the more they are artfully composed, the more they become useful; but the more apt to be out of order. / The Lacedæmonian form may be compared to the wedge, the most solid and compact of all the mechanical powers. / Those of modern states to watches, which are continually going wrong; sometimes the spring is found too weak, at other times too strong for the machine; and when the wheels are not made according to a determinate portion, by the able hands of a Graham, or a Julien le Roy, they do not tally well with one another; then the machine stops, and if it be forced, some part gives way; and the workman’s hand becomes necessary to set it right.

(1 331–2)

However refined an economic theory may become, the growth in complexity of economic mechanisms will outstrip it, so that the need for careful amendment will never cease to exist. On the other hand, however, the *Principles* denies the omnipresence of an ‘invisible hand’ as an ingredient in its economic theory.

In the *Principles*, the development of modern society brings with it the formation and completion of the division of free population between agriculture and industry, and here it was desirable that during that process relations of reciprocal obligation and general dependence were formed, securing the ‘full employment’ (1 117) of people working in industry. This is the ‘modern system of trade and industry’ (1 326), and should also resolve into the maturation of the ‘complicated system of modern economy’ (1 424). What is realized here is a society of all-round merchandise production or monetary circulation, a ‘free and perfect society’ based on ‘general tacit consent’ (1 109). However, in that merchandise and monetary economy, as opposed to in a subsistence economy, buying and selling are separate acts:

Demand is ever understood to be relative to merchandise. A demand for money, except in bills of exchange, is never called demand. When those who have merchandise upon hand, are desirous of converting them into money, they are said to offer to sale; and if, in order to find a buyer, they lower their price, then, instead of saying the demand for money is high, we say the demand for goods is low.

(1 232)

This theoretical separation of demand and sale after the introduction of money is very important in the *Principles*. The *Principles* also argues at a relatively early stage in its theoretical development:

We have said that it is the surplus produced from it [agriculture], which proves a fund for multiplying inhabitants. Now there must be a demand for this surplus. Every person who is hungry will make a demand, but every such demand will not be answered, and will consequently have no effect. The demander must have an equivalent to give: it is this equivalent which is the spring of the whole machine; for without *this* the farmer will not produce any surplus, and consequently he will dwindle down to the class of those who labour for actual subsistence.... Now because it is the *effectual* demand, as I may call it, which makes the husbandman labour for the sake of the equivalent, and this demand increases, by the multiplication of those who have an equivalent to give, therefore I say that the multiplication is the cause, and agriculture the effect.

(1 153–4)

Both the term and the concept ‘effectual demand’ originated in the

Principles.¹⁰ If it must be presupposed that selling and buying are separated by money as the mediator, and that this leads to supply (to get money) becoming more difficult than demand (to get goods), creating the possibility of inadequate effectual demand impeding the division of agriculture and industry from the very beginning, then it becomes an important duty of the statesman to maintain appropriate money supply policies during the development of the ‘complicated system of modern economy’, as well as establishing a system for this maintenance task. Thus, the *Principles* becomes a voluminous system of monetary economic theory inclusive of a detailed policy theory thereon. (The *Wealth of Nations* inherited the term ‘effectual demand’ from the *Principles*, but when Smith says that ‘no commodities regulate themselves more easily or more exactly according to this effectual demand than gold and silver [i.e. money]’,¹¹ he is using that word somewhat aberrationally, applying it to money rather to merchandise.)

As is apparent from the above, the statesman in the merchandise-producing society of the *Principles* can never be so foolish as to repair a clock with a wedge. Clocks need to be repaired by the ‘gentle hand’ (1 427) of a workman not only skilled and prudent, but also well versed in the mechanism itself. This final point on the function of the statesman must be firmly borne in mind.

In the *Principles*, Stuart’s standpoint is clearly that:

In treating every question of political economy, I constantly suppose a statesman at the head of government, systematically conducting every part of it, so as to prevent the vicissitudes of manners, and innovations, by their natural and immediate effects of consequences, from hurting any interest within the commonwealth.

(1 161)

Accordingly, in a competitive economy ‘this happy state [of equilibrium] cannot be supported but by the care of the statesman’ (1 298).

On the other hand, the *Principles* emphasizes:

How hurtful soever the natural and immediate effects of political revolutions may have been formerly, when the mechanism of government was more simple than at present, they are now brought under such restrictions, by the complicated system of modern œconomy, that the evil which might otherwise result from them may be guarded against with ease.

(1 424)

It states, ‘It is the order and regularity in the administration of the complicated modern œconomy, which alone can put a statesman in a capacity to exert the whole force of his people’ (1 425).

This kind of control is entirely different from that of slavery.

The power of the modern prince, let it be by the constitution of his kingdom, ever so absolute, immediately becomes limited so soon as he establishes the plan of œconomy...As modern œconomy, therefore, is the most effectual bridle ever was invented against the folly of despotism; so the wisdom of so great a power never shines with greater luster, than when we see it exerted in planning and establishing this œconomy, as a bridle against the wanton exercise of itself in succeeding generations.

(1 426–7)¹²

Thus, in line with the nature of modern society and the direction in which it should develop, the essence of policy was to gain a theoretical grasp on an economic structure which must inevitably grow increasingly complex at all times.

This is where history separates from ethics, and yet becomes the basis of the science of political economy, depending on the freedom of the masses. The methodology of the *Principles* is of such a standard that the later German Historical School of Economics was unable to equal it, because the latter, under the influence of the German Historical School of Law, attached much importance to the ethical evolution of each individual nation and consequently was negligent of the development of pure and general economic theory.

Some remaining points

Let us turn to the remaining points of discussion within the confines of this chapter.

First, the modern society of the *Principles*, as has been seen, goes beyond differences in forms of government:

By a people's being free, I understand no more than their being governed by general laws, well known, not depending upon the ambulatory will of any man, or any set of men, and established so as not to be changed, but in a regular and uniform way.

(1 315–16)

Differences in the 'spirit of a people' exist within this condition of 'being free'. Furthermore, '*maxims in government bind the monarch and the legislature, as laws bind subjects and subordinate magistrates*' (3 144).

However, the *Principles* is cautious about purely 'popular government' (cf. 2 23) and also rejects the absolute equality of human beings as Spartan-like (cf. 2 44). In fact, the *Principles* sees the people of England as having the greatest popular freedom (cf. 1 92) (nor does the *Wealth of Nations* envisage

direct government by the masses (i.e. republicanism) for that matter). The statesman in this kind of society should not depend on an ‘invisible hand’ but rather make use of an intellectual ‘impartial hand’ (2 183), and, appealing to the ‘spirit of a people’, address the people with his own ‘proper representation’ (cf. 1 5).

Second, Steuart’s fifteen months in Spain had made him conscious that Spain (and sometimes Italy, too) was as different in nature from Western society as the classical ages had been from the modern. He argues that in the oasis-like parts of Spain, a large population can be sustained simply on the abundance of nature, with the result that the spirit of industry withers and the people come to depend on Catholic charity (cf. 1 117ff.). It is interesting to note that ‘this principle of Christianity’ (1 119) is considered suspect, excepting cases where donations from the masses lead to the construction of a grand abbey, because this creates employment and later brings in donations from sightseers.

Third, Karl Marx described the author of the *Principles* as ‘Steuart, der in mancher Hinsicht im Gegensatz zum 18. Jahrhundert und als Aristokrat mehr auf historischem Boden steht’ (‘Steuart, who in some senses is in opposition to the eighteenth century and, as an aristocrat, stands more on historical ground’).¹³ To Steuart, modern society is a historical stage which should be recognized as it stood, and it was not his task to judge which was the better, the society of the classical age or the modern (cf. 1 123).

Schemes for recalling ancient simplicity and for making mankind honest and virtuous, are beautiful speculations: I admire them as much as anybody, but not enough to believe them practicable in our degenerate age. /If therefore the principles I here lay down appear contradictory to so amiable a system of policy, let no man thence conclude any thing to my disadvantage upon the account of my particular opinion concerning it, which is a matter of no importance whatsoever. My object is to examine...how far the bad may be avoided, and the good turned to the best advantage.

(1 90)

The *Principles* consistently rejects the invasion of ethical judgements not only because Steuart wanted to protect the field of science he had created but also on the basis of Steuart’s *nil admirari* attitude to the values of his own age.

Notes

- 1 The text used is Steuart (1805), vols 1–4 of *The Works*. A citation of, for example, ‘1 50’, refers to volume 1, page 50 of the text.

- 2 Both the *Principles* and the *Wealth of Nations* have nothing to do with Cartesianism.
- 3 This can be found in Chamley (1965:130).
- 4 There is also the expression 'spirit of a nation' (e.g. 2 20). See Montesquieu (1748: Book XIX, chap. 4).
- 5 This must have been a phrase much in use in those days. For example, there is a book entitled *The Citizen of the World: Or, Letter from a Chinese Philosopher* (Goldsmith 1762). The phrase can also be found in Adam Smith ([1761] 1976:140–1) and Josiah Tucker ([1781] 1993: Vol. 5). However, the *Principles* uses this phrase in its first edition (1767:3).
- 6 This is the expression found in the dedication referred to in the part of the text cited in n.3. Cf. Montesquieu (1950:II, 1102).
- 7 The *Principles* points out that with money as a medium Jacob and his family could get not only grain but sackcloth, common raiment, parti-coloured garments, spices, balm, myrrh, etc. in exchange for cattle.
- 8 NB: this is an insertion by Steuart himself.
- 9 As Sen points out (1957:122–3), there is a passage in Lerner (1944) which reminds the reader of the discussion on public finance in the *Principles*. Skinner calls Steuart an interventionist (cf. Skinner 1962:33).
- 10 The *Principles* also uses the phrase 'ineffectual demand' in the abbreviated part of this citation.
- 11 Cf. Smith ([1776] 1976:1 73–4, 435).
- 12 To add one final citation:

When once a state begins to subsist by the consequences of industry, there is less danger to be apprehended from the power of the sovereign. The mechanism of his administration becomes more complex,...he finds himself so bound up by the law of his political œconomy, that every transgression of them runs him into new difficulties. I speak of governments only which are conducted systematically, constitutionally, and by general laws; and when I mention princes, I mean their councils. The principles I am inquiring into, regard the cool administration of their government; it belongs to another branch of politics, to contrive bulwarks against their passions, vices and weaknesses, as men.

(1 330–1)

- 13 *Marx-Engels Werke* (Marx 1962–71, Bd 13, S. 616).

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STEUART'S METHOD

Aristotelian political economy

Robert Urquhart

Smith and modern economics

Although Sir James Steuart is the subject of this chapter, I must begin, ironically, not with him, but with the person who, more than anyone else, ensured his eclipse. The first sentence of the first chapter of Adam Smith's *Wealth of Nations* reads: 'The greatest improvement in the productive powers of labour, and the greater part of the skill, dexterity, and judgement with which it is any where directed, seem to have been the effects of the division of labour' (Smith 1776:13). That is to say, Smith begins, straight off, with an internal mechanism of commerce. The first sentence of the second chapter reads: 'This division of labour, from which so many advantages are derived, is not originally the effect of any human wisdom, which foresees and intends that general opulence to which it gives occasion' (Smith 1776:25). Concentration on the internal mechanism is now validated by the claim that we should not look to human intentions for the community as a whole (that is to say, in particular, to political intentions) when we seek to account for the origins of the division of labour. Its origins are on the individual level, and its results are unintended consequences of individual actions.

Donald Winch has rightly criticized what he calls the liberal capitalist' interpretation of Smith.¹ However, it remains the case that a line of thought justifiably derived from these passages is certainly Smith's most influential heritage. This line leads directly to the twin ideals of the economy as a natural, self-regulating system, and of economics as a strict, quantitative science. No other eighteenth-century writer came close to providing such a source for these ideals. In fact, one way to see the development of economic thought is to mark the gap between Smith and Steuart as the great divide. With Steuart, on the one side, stands eighteenth-century political economy, conceived around the purposive interaction of people and state; with Smith, on the other, is modern economics, founded on the central image of the self-regulating market.²

Such a formulation may seem overly stark, and yet it is fundamental. The central principle of modern economics (at least in its orthodox, classical and

neoclassical forms) is already summed up by Smith when he says that ‘no human wisdom or knowledge could ever be sufficient [for] superintending the industry of private people’ (Smith 1776:687). However much it may be modified in practice, the principle remains that the market left to itself will always do better than any intervention, however well-intentioned. For Steuart and political economy, on the other hand, however impressive the internal mechanisms of the system of commerce may be, they cannot of themselves create and preserve economic welfare; political participation is a necessity, and must provide itself with as much knowledge and wisdom as it can.³

From Smith onwards, the idea of the economy as *mechanism* becomes more and more important, gradually displacing the idea of economic *agency*. Modern neoclassical economics, in spite of its apparent emphasis on individual choice, has carried this process the farthest, for the neoclassical individual is a mechanism rather than a purposive agent. Critics of neoclassical theory, however, have had little to say on questions of agency and purpose. (One reason for this, perhaps, is a fear that concern for the individual will taint them with neoclassical ‘individualism’. But this fear blinds them to the fact that such ‘individualism’ actually denies the basic characteristic of the individual, that is to say, individuality.)⁴ Instead they have tended to concentrate on the unreality of neoclassical assumptions. In this, as in other ways, they have accepted in large part the neoclassical demarcation of the terrain of economic theory, leaving themselves little of an independent theoretical foundation. Against the neoclassical claim that economic theory must be equilibrium theory or nothing, critics have either capitulated (as the so-called Analytical Marxian school has) by adopting central neoclassical methods, or they have largely abandoned theory (as the Institutionalists and post-Keynesians have done). Overall, the obsession with making economics a quantitative, mechanical, science, along the best nineteenth-century lines, is shared by most critics and orthodox theorists alike, with the critics haunted by the sense that they must demonstrate that they are just as scientific as those they criticize.

The control that the dominant image of the self-regulating market has had over economic theory, positively and negatively, has meant that little else has been tried in the way of theoretical approaches.⁵ The debate between orthodox theorists and their critics goes on endlessly in circles, with the critics accusing the orthodox of reducing human behaviour to the stereotype of ‘rational economic man’, and the orthodox theorists replying that they can incorporate all motivations in their models.

In this chapter, I will argue that Steuart’s political economy offers a way out of the impasse. One of the great problems of the critics of neoclassical theory is the reactive nature of their positions. But Steuart develops a theory of political economy that is entirely independent of modern orthodox theory—indeed, the latter is actually a reaction to the former. This theory could be of use to modern critics of orthodox economics, because it might help them to

escape from the orthodox terrain on which they are trapped by the absence of an independent theoretical framework of their own. I want particularly to stress Stuart's relation to Aristotle in regard to the shaping of his approach to political economy, which sets him apart from the main line of development of economic theory, which owes its conceptual roots to Plato, Kant and the Utilitarians. I will argue that Stuart's approach might be called, with some irony, 'Aristotelian political economy'.

Steuart and Aristotle

In the preface to *The Principles of Political Economy*, Steuart writes:

Were there but one man upon earth, his duty would contain no other precepts than those dictated by self-love. If he come to be a father, a husband, a friend, his self-love falls immediately under limitations.... If he come to be a judge, a magistrate; he must frequently forget that he is a friend, or a father: and if he rise to be a statesman, he must disregard many other attachments, more comprehensive, such as family, place of birth, and even, in certain cases, his native country.'

(Steuart [1767] 1966:11)

It follows from this that we cannot understand human beings and their nature by looking at a single individual, alone, because relations among individuals are in part constitutive of their individuality. This is not an unusual opinion in the eighteenth century: even Smith agrees with it (though in the *Wealth of Nations* he will attenuate it to the limit, preparing the way for its rejection by modern economic theory).⁶ Nor is it an isolated point. It originates as a crucial link in Aristotle's ethics and politics, and is connected to his metaphysics. I will trace out this chain in very simple terms, contrasting it to what may be broadly viewed as its Platonic opposite, and then showing its relevance both to Steuart's method and to the content of his political economy.

Aristotle starts from a sense of the qualitative diversity of things in the world. It follows that attempts to understand the world must be correspondingly diverse. This does not mean that the world is unintelligible, only that it cannot all be understood in the same way and by the same means. In particular, different subject matters will permit of differing degrees of precision in their study, and the proper degree of precision is one of the hardest things to ascertain (Aristotle 1984a:1730). This leads him to say that practical reasoning (*phronesis*)—including ethics and politics—is a kind of understanding that does not allow of scientific study (*episteme*) (Aristotle 1984a:1800–3).⁷ This is so (to borrow the terms used by Martha Nussbaum in her account of Aristotle's view) because in practical reasoning there are many diverse, incommensurable goods; the particular is prior to the universal;

and imagination and the emotions are in part constitutive of our understanding (Nussbaum 1990). Again, this certainly does not mean that practical reasoning is necessarily unclear, muddy thinking, barely reasoning at all. But it is true, according to Aristotle, that practical reasoning will not yield simple, formal answers of a kind that may be treated as universal, formulated in advance, and applicable to all particular cases. Nor should it yield such answers: it is not the kind of thing for which they are of value.

From this introduction, we can construct a simple schema depicting the necessary links in a broad Aristotelian chain of argument. The qualitative diversity of things requires a corresponding diversity in attempts to understand them. Different approaches with varying degrees of precision are called for. Moreover, the understanding of human action cannot be scientific at all. One expression of the diversity of things is the complexity of the good. And the complexity of the good is shown in, and in part accounts for, the necessity of recognizing that human beings can only be understood in terms of relations among them. (This complexity is also at the heart of the idea of tragic conflict.) The situation is summed up in the famous statement that human beings are by nature political animals (Aristotle 1984b:1987). If this is so, then relations are in part constitutive of human nature.

The ultimate ground of this line of argument is what is perhaps the most remarkable feature of Aristotle's theory of knowledge: the claim that human beings have, by nature, a desire to understand (Aristotle 1984c:1552).⁸ This implies an extraordinary reflexivity between human beings and the natural world. For if human beings, by nature, have a desire to understand, then what they desire to understand is nature. Nature, in turn, Aristotle claims, allows them what they desire: it is accessible to human understanding. Scientific understanding is certainly distinct from practical reasoning, being concerned with things that are unchanging, universal and necessary.⁹ But it may still be said, without wandering too far into the notorious difficulties of the *Metaphysics*, that even science, for Aristotle, is bound up with desire (just as imagination and emotion are in part constitutive of practical reasoning). The desire to understand draws us into the world; in seeking to understand we participate in what we seek to understand. Moreover, this participation indicates a continuity between the method and the content of understanding, and the need to let that which is to be understood dictate the form of study. Here, what is true for science is also true for practical reasoning.

Aristotle's account of practical reasoning stands in marked contrast to an account that goes back to Plato, and which, especially through Kant and the Utilitarians, has had a dominating influence (even to the name) on modern social science.¹⁰ I will call this other account 'Platonic', because beyond all differences, it does have a significant unity. However, at least some of its components, in the way that I shall describe them, pertain more to the later versions. In the Platonic view, the world is uniform, and understanding is correspondingly uniform. The method for understanding is single, and scientific.

The human good is part of the world, and it too is single: study of the human good, therefore, must also be scientific. The unitary character of the good implies the unitary character of individuals, from which it follows that human nature may be understood by the study of the individual in isolation. Especially in the later versions, the unity of science separates the world from the mind; and the scientific attitude rigorously excludes emotion and imagination. Only a disengaged rationality is permissible.¹¹ The single method of science is applied to any subject matter, without regard to its particular content. Just as the scientific mind is separate from the world it studies, so the method is developed in its own terms, without any connection to the particular subject matter. Science, in this form, is domination and control.

One other contrast between the Aristotelian and the Platonic views, of particular significance for economics, needs to be mentioned. This is the question of the relation of parts and whole, or, to put it in economic terms, of aggregation. The Platonic view, following from the unitary character of things, sees the relation between parts and wholes as simple, since the part is merely the whole in miniature. (This may already be seen in Plato's movement, in the *Republic*, from the tripartite soul to the tripartite state.)¹² It follows that the whole is simply the quantitative aggregation of the parts, and no more than the sum of them. For Aristotle, by contrast, the qualitative diversity of things makes the relation of parts and wholes complex. Parts are not simply miniature wholes. (Thus, the household is a different kind of thing to the polis, though households are the parts that make up the polis.) Moreover, wholes are more than the sum of their parts. For the Platonic view, the continuity of part and whole makes of the whole a mere aggregate. For Aristotle, there is something distinctive about what a whole is, whole and part are not continuous, and wholes exist as qualitatively discontinuous entities.

The passage quoted from the preface to the *Principles* showed Stuart adopting a central Aristotelian position on the constitutive role of relations among individuals. We must now see how his work fits into the whole chain of argument. When Stuart comes to discuss human nature in general, he says: 'Man we find acting uniformly in all ages, in all countries, and in all climates, from the principles of self-interest, expediency, duty, or passion. In this he is alike, in nothing else' (Stuart [1767] 1966:20). There is, it turns out, a general statement to be made that covers all human nature: everything that human beings ever think, say or do. But the point of this statement is that it does not get us very far in understanding human beings. It does not do so because human beings are complex, and their behaviour, though it does have a general dimension, is rooted in particularities. For Stuart, as for Aristotle, no general principle, or set of general principles, could be established that would be capable of accounting for human behaviour in particular instances.

The complexity of the situation has two different levels. The first is that

of the simple fact that human beings are motivated by a number of different principles, which cannot be reduced to each other. Action may come from one of these, or from a combination of them. One motive may restrain another, or it may magnify it. Since there is no over-arching principle to determine the relations among different kinds of motive, such relations are formed by the particular case; they cannot be determined in general, and in advance. The second gives further definition to the context in which particular cases arise. This context is history, in which the original multiplicity of principles of motivation is worked out in different places, under different conditions. The result is a diversity of customs, manners, and behaviour that Steuart, following Montesquieu, sums up under the heading of differences in the spirits of different peoples. Before turning to the spirit of the people, it should be noted that this line of thought shows that each basic motive will have different ways of expressing itself, depending upon its context (e.g. self-love will appear quite differently in a nation that above all values military prowess than it will appear in one that above all values material wealth). This reinforces the claim that the general statement of what motivates all human beings is of little use on its own.

The spirit of a people is shaped by the people's history. It constrains the activities of the statesman in political economy. It follows from this that political economy also cannot be a set of abstract principles determined in advance. General principles must always be completed by an understanding of the particular context. Such an understanding—an understanding of the spirit of the people—can only come, as it were, from the inside. The statesman may need to see beyond the spirit of the people, but he must be able to see within it, and through it. This relation between history, spirit and statesman suggests something else as well. The history of a nation is partly within and partly beyond the control of its people, and different nations have different histories and different spirits. The statesman, on the other hand, aims at certain political economic goals, but is constrained by the spirit of the people. No people, and no statesman, can determine just what the nation will be, but neither are they merely the slaves of external forces that determine the nation's fate. In the interplay of statesman and people a considerable degree of choice is possible in determining the kind of society a nation will have.

The possibility that political economy may purposively shape a nation indicates that it is above all things a plan of action. It follows that the plan of political economy is actively engaged in the conditions of the system of commerce. Its stance must not only be necessarily purposive, but also necessarily ethical. Political economy fits into the Aristotelian mode in which there is no distinction between deliberation on practical reasoning and practical reasoning itself. Ethics permeates all levels, method must be derived from content, and one who deliberates is led into the field of action with which deliberation is concerned.

The sense of political economy as action is brought out in an analogy

Steuart makes while discussing competition between nations, and which can serve as a general image for his political economy as a whole:

The trading nations of Europe represent a fleet of ships, every one striving who shall get first to a certain port. The statesman of each is the master. The same wind blows upon all; and this wind is the principle of self-interest, which engages every consumer to seek the cheapest and the best market. No trade wind can be more general, or more constant than this; the natural advantages of each country represent the degree of goodness of each vessel; but the master who sails his ship with the greatest dexterity, and he who can lay his rivals under the lee of his sails, will, *cæteris paribus*, undoubtedly get before them, and maintain his advantage.

(Steuart [1767] 1966:203)

The first thing to notice about this is the way in which it establishes a relation between political and historical elements on the one hand, and natural conditions on the other. Self-interest, like the trade wind, is simply a part of nature; neither has any necessary connection to commerce or political economy. It is only through being harnessed and channelled by the statesman that they become useful: but their usefulness still stems from their natural character.¹³ For present purposes, however, it is something else that should chiefly draw our attention. The trade wind and the ships are an image of the kind of situation in which political economy must unfold, and so of the kind of action in which the statesman must engage. The ship cannot simply be set in motion and then left to sail itself. Sailing well requires continual attention and adjustment, even under normal conditions. But normal conditions will not always prevail, unexpected emergencies will occur, requiring immediate response. Aristotle in fact uses the art of navigation as an image of the character of practical reasoning. You cannot learn to navigate from a book, he says. General rules are important, but equally important is the experience of sailing a ship, learning to recognize a situation that cannot be identified through a predetermined abstract principle, and developing the ability to respond to the unexpected.¹⁴ Steuart might add that a good captain must know everything about his ship and crew, just as the statesman must know everything about his nation and its people.

For Steuart, as for most eighteenth-century writers, the market is to some degree orderly. But it cannot be left to itself. It requires the constant attention of the statesman, as well as the intelligent interaction of the statesman with the people, conceiving of and planning for the system of commerce as a whole. The image of ship, captain and crew perfectly captures this idea, placing it, also, in the orbit of Aristotelian practical reasoning. The contrast with the mainstream of modern economics, with its claim to scientific status, can be felt when we contrast this image with its typical modern counterparts:

the machine or the natural system (e.g. the solar system). These, indeed, have only to be set in motion, and left to themselves. Plan, engagement, action, and purpose have no place in the orthodox economist's tasks.

Steuart tells us that the hardest task he faced in constructing a system of political economy was to hit on a method adequate for the organization and presentation of the material. His solution to this problem was to recognize the necessary historical element of the study, and to use it as a kind of frame for theory. History must be seen as past action, where action always takes place in a particular context; and theory is, first of all, a theory of action.

The interplay of theory and history pervades Steuart's political economy. Neither can be neglected, each informs the other. This interplay rests on the original complexity of human nature, and on the diversity of the forms in which human nature is expressed over the course of history. History as past action provides the context in which action in the present must be undertaken. Purpose and agency therefore become crucial to the understanding of human life. But, as with Aristotle, although they provide a basis for theory, they cannot be reduced to simple unchanging principles, universal in scope. Steuart accepts, and acts on, the great lesson that Aristotle sought to teach: that theory, at least insofar as practical reasoning is concerned, is unwieldy, and often messy, but it is theory nonetheless.¹⁵ Political economy is not only necessarily normative, its sense of the normative must always be grounded in actual peoples and their cultures. Steuart's political economy does not provide simple formal answers. It does provide a context within which formal analysis can develop. However, it claims that formal analysis can only be the servant, not the master: the subject matter under discussion does not allow the precision of general formal solutions.¹⁶

To get beyond this point in understanding Steuart's approach, however, we must consider ways in which he parts from Aristotle, and what the significance of these departures is.

The limits of Steuart's Aristotelianism

Œconomy, in general, is the art of providing for all the wants of a family, with prudence and frugality.

(Steuart [1767] 1966:15)

This is the beginning of the first chapter of Book I of the *Principles*. It is a definition of economy derived straightforwardly from Aristotle's *oikonomia*, the art of household management. But on the next page Steuart departs from Aristotle, when he says: 'What œconomy is in a family, political œconomy is in a state' (Steuart {1767} 1966:16). This obviously corrupts Aristotle's distinction between politics and economy, and the simple hierarchical relation between them. For Aristotle, the polis is the whole, the household (*oikos*), the part; politics and economy are related in the same

way. The household does indeed have its own ethical order, but it is an order subordinate to that of the polis. The ultimate purpose of the household is to provide for the needs of the citizen so that he may participate in the political life of the polis (Aristotle 1984b: I). Clearly, the transformation of politics and economy into political economy corresponds to the growing prominence of commerce. But in thinking of the meaning of the change, it is best to begin from Aristotle's point of view.

One of the ways in which households interact, Aristotle says, is through the exchange of goods: only the ensemble of households making up the polis, not each one, is self-sufficient. Aristotle distinguishes between two uses of goods: using them to satisfy needs through their particular useful properties, and using them in exchange. The former is the natural use. But exchanges are necessary, and provided that their purpose is to transfer goods into the hands of those who need them, they fit into the natural order of the polis. These exchanges begin as barter, but barter is inconvenient, and money is invented to facilitate exchange. Again, there is nothing wrong with money, provided that it remains nothing more than a means of exchange. The trouble is that it does more than this. For Aristotle, the great danger of money is that it transforms the way individuals think of wealth: from seeing wealth as comprised of useful objects, they come to see it as comprised of money. Useful objects satisfy needs that are easily recognized as limited; but money—wealth unconnected to any useful object—leads people to desire it in unlimited amounts.

This line of argument is important in the origins of economic thought. We find here the roots of the distinction between use-value and exchange-value basic to classical economics. We find also the story of the origins of money still told in the principles textbooks. But for Aristotle, the crucial thing is the threat that money poses to the political order. He is certainly not the only ancient writer to have this view,¹⁷ but he does give the fullest account of just why money is a problem. Only the rise of commercial society and, ultimately, of capitalism, turns money, as Marx puts it, from dissolving the community to *being* the community (Marx 1973:224). But the psychological change perceived by Aristotle is real nonetheless, even if in modern society it permits a kind of order.

Steuart, well within the period when money has lost most of its fearful aspects, also begins with the overcoming of the inconvenience of barter. But, like Aristotle, he does not end there. He shows how money, and merchant activity, transform isolated acts of barter into a social system of exchange (Steuart [1767] 1966:156).¹⁸ Thus, the organizing power of money, a social creation, is brought to the fore. (This contrasts with the orthodox view, both classical and neoclassical, in which the market as natural system mysteriously creates a self-regulating order, without any necessary reference to money.) Money is the equivalent, the circulation of which permits uninterrupted commerce. In performing this function, Steuart says, it 'is the

palladium of liberty, the fountain of gentle dependence, and the agreeable band of union of free societies' (Steuart [1767] 1966:268). But though Steuart clearly links money to a changing idea of wealth, he does not, as Aristotle does, see the mere introduction of money as sufficient to cause the change. And yet, for Steuart, the change is necessary if commercial development is to occur. Money must be joined by 'a taste for superfluity', and this will have to be introduced by the statesman. Thus, the social character of money indicates also that it is not an independent force. Moreover, though Steuart sometimes behaves as if rapid circulation, with its attendant change in the distribution of wealth, is a good thing (Steuart [1767] 1966:317), on other occasions he takes a rather different line. In discussing inland trade, for example, he says that the speed of circulation will have such a levelling tendency that a popular government is likely to come to power, 'if the statesman do not take care to prevent it' (Steuart [1767] 1966:304).

Both in its origins, and in the need to control it, then, money is tied to politics and the statesman. It is worth placing this account of money in a larger context, because Aristotle's fears, however much they are mitigated in later ages, remain significant for one line in economic thought, a line to which Steuart belongs. But after Steuart, the main line of economic thought, both classical and neoclassical, while accepting Aristotle's story about overcoming the inconvenience of barter, stops with this, and assumes that money is nothing more than a neutral medium of exchange. After Steuart, only Marx and Keynes, among major economists, come out decisively against this line, and only Marx attempts to show the logical and structural necessity of money in an exchange economy. In arguing for the necessity of money, Marx refers to it as the 'real community', yet he also sees it as central to the volatility and tendency to crisis that he sums up in the phrase 'the anarchy of capitalist production'.¹⁹ Keynes also links money to the conditions of crisis, and uses this to argue for the necessity of government intervention.²⁰ We might sum up the opposition between these views on money by the following equations: neutral money=laissez-faire; money matters=necessary government intervention (or, in Marx's case, proletarian revolution).

For Steuart (as for Marx), the significance of money is bound up with its social character, and here again we see the contrast with orthodox economics, both classical and neoclassical. For in the orthodox view, the market is a natural system, and this accounts for the fact that money is no more than a neutral convenience (in neoclassical economics, indeed, economic behaviour achieves its ends without necessary reference to any particular social institutions). But this line of thought brings us back to Steuart's relation to Aristotle. Aristotle's account of politics, with economy as a part of it, treats the political order as natural, and human beings as, by nature, political animals. The polis is seen to develop through a kind of natural history. For Steuart, by contrast, history is what distinguishes society from nature. Yet here again, the difference between the two should not be pushed too far.

Aristotle conceives of nature as the inner purpose of things. Human nature, as we have seen, is distinctive not only because human beings are by nature political, but also because they have, by nature, the desire to understand. These characteristics make it possible to say of them that alone among natural beings, they intend their own nature. In this way, the political order, though natural, is realized through the conscious deliberations and actions of human beings. In the seventeenth century, the Aristotelian conception of nature had been attacked in the name of a new idea of science that specifically denied the role assigned by Aristotle to purpose, and replaced it with a mechanistic view of nature. This was not the only view of nature current in the eighteenth century, but it was increasingly the view associated with science.²¹ A curious situation now develops. Smith, at least in *The Wealth of Nations*, adopts what might be called an Aristotelian natural history of society. But he does so in terms of the new mechanistic nature, and this is the precursor of the modern economic reduction of society to nature, with economics as the science of society. Aristotelian means produce a non-Aristotelian end. In contrast to this, Stuart's distinction between nature and society should be seen as the preservation of an Aristotelian sense of the significance of human purpose, embodied in politics, in the shaping of social life.²²

Nonetheless, the largest gap between Aristotle and Stuart is on the question of the nature of politics. In Stuart's political economy, corrupting Aristotle's distinction between economy and politics, we find implicit recognition of the coming into existence of a new sphere of social activity between those of family and state. (This sort of implicit recognition is common in eighteenth-century thought, paving the way for Hegel's explicit demarcation of family, civil society and state as the constitutive spheres of modern society.) For Stuart, the division shows itself in the separation of society from state, and this, in turn, narrows the meaning of the political sphere.²³ In fact, this separation is the most important continuity between Stuart and Smith, since it prepares the way for the functional state. At this point, Aristotle's substantive politics seem far away. However, even here, something is preserved. For the state still in part embodies, and in part interacts with the spirit and culture of the people. Moreover, in the idea that a society has some degree of choice as to its own character, a substantial notion of politics still subsists, where the polity as a whole must be something more than the sum of its parts. Therefore, although the phrase does have an ironical edge, 'Aristotelian political economy' remains a valuable way to define Stuart's approach.

Modern economics and Aristotelian political economy

Contemporary economics seems trapped in a sterile opposition between neoclassical orthodoxy and its critics. The limits of this opposition can be defined as between strict equilibrium theory on the one hand, and the

empirical generalizations of the post-Keynesians and Institutionalists on the other. Neoclassical economics in its most extreme free-market and formalist manifestations has achieved a new prestige in recent years. This is odd, because its defects have never been so glaringly obvious. The hundred years from its origins to the 1970s, in which an established capitalist economy passed through successive phases of what has been called 'transformational growth',²⁴ could allow for a kind of masquerade of the neoclassical assumption of insatiability faced with limited resources (though the dynamism of the capitalist economy was always an embarrassment to the latter). However, in the present situation, where, to give but one example, so-called lean and mean' strategies for competitiveness and increased productivity can only, if left to themselves, deepen already entrenched structural unemployment,²⁵ a theory that assumes a tendency towards full employment on the basis of axioms that can, in principle, have no necessary connection to the specific conditions of capitalism is dangerously out of place. But the critics have proved remarkably unsuccessful in challenging neoclassical orthodoxy, and one important reason for this is the absence of an independent theoretical framework. Without this, criticism must seem *ad hoc* and fragmented.

I want to suggest—although in the remaining space I can do no more than suggest—that Aristotelian political economy is capable of providing such a framework. Steuart is important here in his own right, but also, perhaps especially, as leading us back to the fundamental divide between Aristotle and Plato, and pointing out a path for economic theory other than that of a unitary, mechanistic, science (and other than the simple reaction against this). I will sketch this other path in terms of a few broad areas.

The first has to do with the relation between theory and history. Neoclassical theory claims relevance for all historical periods without discrimination; it is thus ahistorical. That it is ahistorical is one of the standard criticisms. But most critics have done little, beyond vague generalities, to fill the gap. There is, of course, one major exception to this, and that is the work of Marx, which forms the basis for the understanding of the specific character of the capitalist economy. It is important to see that Marx (along with at least a part of the Marxian tradition) and Steuart occupy a place in economic theory quite apart from the line of opposition running from the neoclassicals to the post-Keynesians. But where Marx seeks a systematic account in which the place of history and its stages are rigorously determined, Steuart allows a much looser structure. He works out the interplay of theory and history through three elements: nature (both external and human), history itself, and what may be called the possibility of order, the third being a reflection on the other two. (The account of the imperfect organizing power of the market is a good example of the process.) But the fact that human action is crucial both in history and in the plan of political economy makes the interplay of theory and history necessarily open-ended.

The second area is that of the relation between the economy and politics. Neoclassical theory either ignores politics or reduces it to economics. On the other hand, much modern 'political economy', though arguing for the importance of political considerations, can do nothing more than suggest a rather vague merging of the two. Stuart, by contrast, begins from the idea that the economy and politics are distinguished from each other through the different principles that animate them (self-interest and public spirit respectively). However, he sees them, in political economy, as necessarily occupying the same terrain. The interaction between them, therefore (like the interaction between principles of motivation), can only be understood through study of the particular context. Here again, theory is necessary, but incapable of yielding formal results.

The third area is that of the individual. It is hardly an exaggeration to say that, in economics, the neoclassicals have a virtual monopoly on the theory of the individual.²⁶ But the neoclassical individual is an automaton. If purpose and action are to be taken seriously, a far more substantial notion is needed. Stuart's conception of the complexity of motivations provides a starting-point. Moreover, it fits well with the kind of Aristotelian deliberation described by Nussbaum. She emphasizes the need to think in complex, narrative terms, adequate to the density of individual emotions and responses (and it is for this reason that she values a certain kind of novel in coming to see what is required).²⁷ The crucial thing here is to recognize that the kind of formal analysis typical of neoclassical economics entirely fails to engage with the real issues of practical deliberation by individuals. This recognition imposes on us the need to abandon simple formal solutions. The subject matter will not yield them.

Finally, purpose has to be extended to the level of society as a whole. Here again, Stuart's conception of the possibility, within limits, of choice about the kind of society we wish to be fits well with Nussbaum's account of Aristotelian practical deliberation. Perhaps at no time in the past has such deliberation, at the national and international levels, been so necessary. But the formal pretensions of neoclassical economics stand in the way. The dream of hard science entails passivity, but the problems of the modern economy can only be understood by a theoretical stance that is actively engaged with them. It is hard to give up the dream of science, with its promise of simple, formal solutions. But the recompense for the lack of precision, for the tortuous and difficult requirements of real practical deliberation, is that action is possible.

Notes

- 1 Winch (1978:13–14) and throughout.
- 2 An important line in the literature tends rather to stress the continuities between Stuart and Smith. See, for example, Sen (1957), Vickers (1970) and Skinner's

- introduction to his edition of the *Principles*. More recently, some authors have stressed contrast. Anderson and Tollison (1984) have made perhaps the most extreme claim, in their ‘Sir James Steuart as the apotheosis of mercantilism and his relation to Adam Smith’; for a more moderate view, see Eltis (1986). Skinner, in his ‘Sir James Steuart: the market and the State’, has given more emphasis to Steuart’s differences with Smith.
- 3 For an account of this position, with regard to the ‘mercantilist’ tradition as a whole (though without mentioning Steuart), which stresses continuity with later economic thought, see Grampp (1952:487).
 - 4 For a good account of the way in which ‘individualism’ may deny the individual, see Lear (1990:18–20).
 - 5 Marx’s economic theory is an exception. But modern Marxian economics (especially Analytical Marxism) has been more and more co-opted by orthodox theory.
 - 6 For a discussion of Smith’s view, see Urquhart (1994: sec. III).
 - 7 This passage is from Book VI. In Book I, chap.1, Aristotle does, indeed, speak of politics as a science (*episteme*)—in fact, as *the* master-craft (*architektonikes*) of the human good. But the running together of science and craft already suggests something odd here; and the account of Book VI clearly takes precedence.
 - 8 For an excellent discussion of the meaning of this remarkable claim, see Lear (1988: chap. 1).
 - 9 For the distinction between scientific knowledge (*episteme*) and practical reasoning (*phronesis*), see Aristotle (1984a:1799–1801).
 - 10 For the opposition between the Aristotelian and the Platonic views of practical reasoning, see Nussbaum (1990). Much of what follows is derived from Nussbaum’s account. For a more general account of the opposition between Aristotle and Plato, see Nussbaum (1986).
 - 11 Here, a full account would need to make distinctions between Plato and modern thought. For a description of the emergence of the view of disengaged reason—one of the great archetypes of modern thought—see Taylor (1989: chaps 8–9).
 - 12 Although the soul, for Plato, is tripartite, and so might seem a complex entity, the good is unitary, and this accounts for the ease in which the move from part to whole is made.
 - 13 For more on this aspect of the image, see Urquhart (1996: sec. I).
 - 14 For further discussion of relevant issues, see Nussbaum (1990: sec. II).
 - 15 See Nussbaum (1990: secs IV–V), for the claim that this characteristic of deliberation on practical reason must appeal beyond philosophy to art and, in particular, literature.
 - 16 Terence Hutchison recognizes Steuart’s distinctiveness here, though he puts it in somewhat different terms (Hutchison 1988:337–9).
 - 17 Creon, in Sophocles’s *Antigone*, says: ‘Of evils current on earth/The worst is money. Money ‘tis that sacks/Cities, and drives men forth from hearth and home; /Warps and seduces native innocence, /and breeds a habit of dishonesty.’
 - 18 His account of this is, indeed, no more than a sketch. Yet it is hardly surprising that Marx, the only economist to develop a full account of money as the organizing force, ‘the real community’, of an exchange economy, is also one of the very few to take Steuart seriously.
 - 19 See, for example, the first hint of the link between money and crisis in Marx (1976:208–9).
 - 20 See, for example, J.M.Keynes: ‘A monetary theory of production’.
 - 21 For the mechanistic view and alternatives, see Taylor (1989: Parts II and III).
 - 22 For more on this subject, see Urquhart (1994:400–2).

- 23 For a more general account of the rise of the idea of society in opposition to that of the polity, see Arendt (1958: chaps 4, 6).
 24 See Nell (1988).
 25 See, for example, Sawyer (1994).
 26 But for an important exception, see Levine (1988: chap. 1).
 27 See Nussbaum (1990: sec. V).

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II

MARKETS, MONEY AND MACROECONOMICS

JAMES STEUART

Aspects of economic policy*

*Andrew S. Skinner***Introduction**

The ‘Jacobite Connection’ tells us something of a segment of the history of the Rebellion. But for the student of Steuart it may be chiefly interesting for the light which it sheds on his personality and, more securely, upon the nature of his experience. The Foreign Tour of 1735–40, added to almost eighteen years of exile, gave Steuart a unique opportunity. He journeyed extensively, gaining a remarkable knowledge of conditions in Spain, Italy, Holland, Germany and France.

Moreover, he had a retentive mind and a marked curiosity. Of many examples, one may cite a letter addressed to his brother-in-law, Thomas Calderwood of Polton, from Seville, dated 5 March 1737. The letter was written in a state of some distress following the news of his mother’s death, but Steuart found time to comment on the fertility of the country, the lack of industry, impending famine and the opportunities for trade that were presented by the river Gaudalquiver, ‘which no doubt you have heard of as one of the finest in Europe for trade’ (Chamley 1965:127–9).

Steuart’s remarkable experience had a profound influence on the shape which the *Principles* was to assume. It is a striking fact that Steuart often wrote in the first person singular and in the manner of one seeking to share his experiences and difficulties with the reader. Indeed, Steuart drew attention to the difficulties under which he laboured in the preface to the *Principles* precisely because he thought they would be of interest to his audience. He pointed out that the ‘composition’ was the ‘successive labour of many years spent in travelling’ (Steuart 1966:3–4; 1998:4) during which he had examined different countries ‘constantly, with an eye to my own subject’.

* The material in this chapter is in part drawn from ‘Sir James Steuart: Political Economy and the Jacobite Connection’ as delivered at the Conference in Viziville. The text was subsequently modified and published in the Discussion Papers series in the Department of Economics (1995) of the University of Glasgow.

Steuart wrote very much in the style of a man finding his way through a new field. This, added to the fact that nearly eight years separate the first and last books, presented obvious problems—problems of which Steuart was always conscious but which he viewed with very mixed feelings:

Had I been master of my subject on setting out, the arrangement of the whole would have been rendered more concise; but had this been the case, I should never have been able to go through the painful deduction which forms the whole train of my reasoning and upon which... the conviction it carried along with it in a great measure depends.

(Steuart 1966:7; 1998:8)

But the critical point to note is that Steuart attempted to produce a single great conceptual system, linking the most interesting branches of modern policy, such as ‘population, agriculture, trade, industry, money, coin, interest, circulation, banks, exchange, public credit, and taxes’ (Steuart 1966:7; 1998:7).

As Paul Chamley has pointed out, Steuart’s attempt to produce a systematic treatise confirms that he sought to include economics in the body of organized science, and that as such his purpose conforms to the design of the *Encyclopédie* as described by d’Alembert (1963:50).

Steuart’s struggle to contrive an appropriate ‘chain of ideas’ is also interesting from a biographical point of view, especially in that he settled upon an historical perspective, which owed much to his friend David Hume, whose *Political Discourses* he had read in French translation. But if Steuart owed much to Hume both in terms of the socio-economic analysis of the stages, and method, the circumstances surrounding the completion of the first two books of the *Principles* are equally significant.

First, it is important to remind ourselves that the first two books of the *Principles* were completed by the summer of 1759, that is prior to the effective dissemination of physiocratic teaching. Even though the *Principles* was published in 1767, the same year as his friend Mercier de la Rivière published his *Natural and Essential Order of Political Societies* (cf. Smith [1776] 1976:IV, ix, 38), nonetheless the analytical strategy is pre-physiocratic in character. Although Steuart did owe a debt to Mirabeau, the co-founder of the School (Meek 1962), he used the first edition of the *Friend of Man* (*L’Ami des Hommes* 1756).

Second, it is also significant that Steuart developed, and virtually completed, the first two books in the isolation of Tübingen where he may have been influenced by the distinctive position of the cameralists. Keith Tribe, in an important commentary on German economic discourse, has indeed noted that Steuart’s text ‘bears more than a passing resemblance to contemporary Cameralistic literature’ while noting that the spread of a cameralistic *orthodoxy* came after the period of Steuart’s visit. Professor

Tribe concludes: 'However much significance is given to Steuart's period of residence in Tübingen, it can be maintained that the *Inquiry* bears a closer resemblance to contemporary French and German literature than it does to English texts of the same period' (1988:136-7).

The key lies in the emphasis given to economic *management* in this literature. As Deborah Redman recently noted, 'For the cameralists the state was seen as an organic whole whose various economic branches, *Landwirtschaft* (agriculture), *Gewebe* (industry), *Manufaktur* (manufacture), *Verkehr* (transport), and *Handel* (trade) needed co-ordination' (Redman 1996:59).

The emphasis on the need for *co-ordination* produced a distinctive policy perspective which is to some extent captured in J.A.Schumpeter's description of von Justi:

His *laissez-faire* policy was *laissez-faire* plus watchfulness, his private enterprise economy a machine that was logically automatic but exposed to breakdown and hitches which his government was to stand ready to mend...his vision of economic policy might look like *laissez-faire* with the nonsense left out.

(Schumpeter 1954:172)

Regional policy

Steuart's reading of the variety of environments which he had observed, and which *include* impressions, notably of Spain, which had been formed during the Foreign Tour, led him to recognize the importance of the positive role of the state. A number of examples may be cited in order to illustrate these distinctive themes, although the points which follow are scarcely exhaustive.

First, Steuart addressed a problem which is implicit in the analysis of the third book of the *Wealth of Nations* but which was not *explicitly* considered by Smith; namely, the policy dimension of the socio-economic process which *finally* resulted in the emergence of the fourth stage of commerce in an *advanced* form. Steuart's model may be loosely described as that of 'primitive accumulation', in *contrast* to Smith's, where 'the process of "primitive accumulation" has now been completed' (Kobayashi 1967:19). The same point is made by Perelman when he notes that Steuart *directly* addressed the problems of a *primitive* version of the stage of commerce (Perelman 1983:454) in a way which led Marx to appreciate his sensitivity to historical differences in modes of production (*ibid.*: 467).

In yet another version of the same argument Steuart suggested that the historical and contemporary record could provide a guide to the problems which would confront a statesman seeking to *induce* change, i.e. a guide to the statesman who seeks to adopt a self-conscious policy of economic, and therefore of social, development. It was Steuart's contention that in many cases the transition from a state of 'trifling industry' and subsistence farming

could not occur without ‘the interposition of the sovereign, and a new plan of administration’ (Steuart 1966:96; 1998:110).

Steuart was undoubtedly preoccupied with the problem of employment in socio-economic systems in a process of transition:

Pipers, blue bonnets, and oat meal are known in Swabia, Auvergne, Limousin, and Catalonia, as well as in Lochaber: numbers of idle, poor, useless hands, multitudes of children, whom I found to be fed, nobody knows how, doing nothing at the age of fourteen.... If you ask why they are not employed, their parents will tell you because commerce is not in the country: they talk of commerce as if it was a man, who comes to reside in some countries in order to feed the inhabitants. The truth is, it is not the fault of these poor people, but of those whose business it is to find out employment for them.

(Steuart 1966:108; 1998:123–4)

Second, and arising from the above, it is worth noting Steuart’s interest in the problem of regional imbalance even within the context of a relatively mature economy.

Steuart’s general interest in regional issues is a marked feature of the *Principles* and was to find further expressions in his *Considerations of the Interest of the County of Lanark in Scotland*, which was first published in 1769 under the name of Robert Frame. This short work was explicitly designed to illustrate *general* principles by reference to a particular case; namely that of a backward county in which Steuart resided and which supplied corn to the neighbouring city of Glasgow. Steuart was concerned to demonstrate the impact of the city’s demand for agricultural products on an undeveloped region (Steuart 1805:5 321). He also drew attention to the fact that the development of the city of Glasgow, ‘the Venice of the North’, had enhanced local demand, and thus temporarily reduced the supply of food available for sale outwith the region.

From the point of view of the city, the fact that local supply was fitful had lent support to the proposed Forth and Clyde Canal which was intended to link the two coasts and further to improve the market for grain. Steuart clearly welcomed this development, while warning his contemporaries that its immediate effect would be to *ruin* local agriculture *unless* steps were taken to further the cause of agricultural improvement and to develop the local infrastructure *before* the canal became fully operational. In particular he contended that the infant industry argument which had been applied to the textiles of the neighbouring town of Paisley, should be extended to agriculture (ibid.: 5 308) in the short run. It was the welfare of the poor with which Steuart was, once again, primarily concerned, not to mention the realities of the short run in the context of a situation in which agricultural provision was, to say the least, imperfect.

But for Steuart, these were old preoccupations which directly reflected his experience of conditions in Scotland and Europe. In the letter to Thomas Calderwood, above cited, from Seville, 5 March 1737, he pointed out that:

this year indeed will fall heavy on the people, because of the great scarcity there must be of Corn.... The people are in such despair, that they are going in processions all hours of the day and night, some naked to the middle, and lashing themselves with cord, others all cut over the body, and running with blood, some carrying crosses upon their naked shoulders, with crowns of thorns upon their heads. In short it is to me the most shocking thing in the world, to see the madness of these poor people, at a time which ordinarily used to be of the greatest mirth and rejoicing, the last day of the Carnival.
(Chamley 1965:127–8)

Steuart's disgust with respect to the vast but misused resources of the Duke of Medina Coeli, is palpable.

Yet if Steuart was capable of an emotional response to the situations of this kind, he was equally capable of a coolly analytical approach to them, notably in *A Dissertation on the Policy of Grain: With a View to a Plan for Preventing Scarcity or Exorbitant Prices in the Common Markets of England*, a piece which was completed in 1759 when Steuart was still resident in Tübingen.

In this important document, which Walter Eltis claims to have anticipated the modern recommendations of the EC (Eltis 1986:44), Steuart returned once more to the problems presented by a relatively underdeveloped agricultural sector, subject to vagaries of supply, but this time in the context of a national, as distinct from a regional, economy. Steuart sought a managed market: a combination of the 'two schemes of bounty-money, and granary making' (Steuart 1805:5 359) in order to protect the interests of the poor, to stabilize prices, and to provide encouragement to agriculture in the context of a situation where supply was variable and regional transport uncertain.

The contrast with Adam Smith could hardly be more marked. E.P. Thompson recently reminded his readers of the importance of the *Digression Concerning the Corn Trade* and of the significance which Smith attached to it (Smith [1776] 1976:IV, i, b, 1). The argument is a logical extension of Smith's position and is dominated by the claim that 'The unlimited, unrestrained freedom of the corn trade, as it is the only effectual preventative of the miseries of a famine, so it is the best palliative of the inconveniences of a dearth' (Smith [1776] 1976:IV, v, b, 7).

As Thompson pointed out, the *Digression* acquired 'oracular authority' and claimed that few chapters could have had a more 'palpable influence' (Thompson 1992:279, 276). But as the same author also argued, 'dearth

and famine are always in the short run, but not the long. And Adam Smith has only long-run remedies' (ibid.: 278, 283).

International trade and policy

Finally, we should note some of the characteristic features of Steuart's treatment of trade. Steuart recognized that trade within and between states would immeasurably increase the possibilities of economic growth through the provision of wider markets. He was thus able to conclude that 'trade has an evident tendency towards the improvement of the world in general' (Steuart 1966:119; 1998:137).

He recognized further that trade between nations, like that between men, was based upon the existence of reciprocal needs. As a result, the cement of international society, like that of civil society, must be of the same kind: 'intercourse tends to unite the most distant nations as well as to improve them: and...their mutual interests leads them to endeavour to become serviceable to one another' (Steuart 1966:217; 1998:282).

In the second book Steuart dropped the assumption of the closed economy. Characteristically, he traced the interrelationship between developed and undeveloped nations in terms of the distinction between active and passive trade, which had already been established by Malachy Postlethwayt (cf. Johnson 1937:225). Here the purpose was to examine the positive impact of foreign demand on a backward economy in terms of an analysis which anticipated one of Adam Smith's most notable disciples, J.B.Say, who elaborated on an argument which is developed, albeit in a purely historical context, in *Wealth of Nations* Book III. Equally striking is the fact that Steuart treated different states as competitive firms:

The trading nations of Europe represent a fleet of ships, every one striving who shall get first to a certain port. The statesmen of each is the master. The same wind blows upon all, and this wind is the principle of self-interest, which engages every consumer to seek the cheapest and the best market. No trade wind can be more general, or more constant than this.

(Steuart 1966:203; 1998:250–1)

But Steuart's treatment of international trade takes as its basic premise the proposition that economic conditions and performance will *differ* even in the context of relatively developed nations.

He was clearly aware of variations caused by 'natural advantages' such as access to materials, transport and the nature of the *climate*, as befits a close student and admirer of 'the great' Montesquieu (Steuart 1966:238; 1998:290). To these he added the form of government in arguing that 'trade and industry have been found mostly to flourish under the republican

form, and under those which have come nearest to it' (Steuart 1966:211; 1998:259). But equally important for Steuart were the spirit of a people and 'the greater degree of force' with which 'a taste for refinement and luxury in the rich, an ambition to become so, and an application to labour and ingenuity in the lower classes of men' manifested themselves in different societies at any one point in time and over time. Steuart was acutely conscious of the sheer variety of economic conditions and indeed noted early in the book that:

If one considers the variety which is found in different countries, in the distribution of property, subordination of classes, genius of people proceeding from the variety of forms of government, laws, climate, and manners, one may conclude, that the political æconomy of each must necessarily be different.

(Steuart 1966:17; 1998:21)

From the point of view of policy, the number of possible 'combinations' opened up by the proposition that growth rates and other characteristics will vary is virtually endless, and it was in recognition of this point that Steuart employed three broad classifications, all of which may derive from Mirabeau's *Friend of Man* (1756), but which generalize on the argument already advanced by Hume: the stages of infant, foreign, and inland trade, each with its distinctive policy dimension.

Infant Trade represents that situation 'known in all ages, and in all countries, in a less or a greater degree' and which is antecedent to supplying the wants of others. Here the ruling principle

is to encourage the manufacturing of every branch of natural productions, by extending the home-consumption of them; by excluding all competition with strangers; by permitting the rise of profits, so far as to promote dexterity and emulation in invention and improvement; by relieving the industrious of their work as often as demand for its falls short. And, until it can be exported to advantage, it may be exported with loss, at the expence of the public.

(Steuart 1966:263; 1998:320)

At the same time, Steuart suggested that the statesman must control profit levels so that when the real value of commodities indicates that they are competitive in the international context, trade may begin. In the same vein, he argued that while protection is essential if industry is to be established, 'the scaffolding must be taken away when the fabric is completed' (Steuart 1998:II 180). The argument is essentially the same as that set out in the discussion of protection for the agricultural interests in Lanark.

In the case of *foreign trade*, taken as representing the attainment of a

competitive stage, the policies recommended are simply designed to retain the capability. Here the ruling principles are

to banish luxury; to encourage frugality; to fix the lowest standard of prices possible; and to watch, with the greatest attention, over the vibrations of the balance between work and demand. While this is preserved, no internal vice can affect the prosperity of it.

(Steuart 1966:263; 1998:321)

Inland Trade, on the other hand, represents a situation where a developed nation has lost its competitive edge as a result of the tendency for the balance of work and demand to be disturbed in the historical long run. Here the basic preoccupation must once more be the maintenance of the level of employment. Steuart also recognized the importance of the balance of payments in advocating a restrictive monetary policy, and concluded that 'I will not therefore say that in every case which can be supposed, certain restrictions upon the exportation of bullion or coin are contrary to good policy. This proposition I confine to the flourishing nations of our own time' (Steuart 1966:581; 1998:III 351).

But in this case the basic problem was not demand so much as the need to keep domestic price levels as low as possible with a view to taking advantage of the present and future difficulties of other states. With the possible exception of Holland, it was Steuart's contention that because all nations would suffer the same long run trends, but at different rates, it followed that:

as industry and idleness, luxury and frugality, are constantly changing their balance throughout the nations of Europe, able merchants make it their business to inform themselves of these fluctuations, and able statesmen profit of the discovery for the re-establishment of their own commerce.

(Steuart 1966:296; 1998:II 22)

While it appears that nations may be expected to go through a series of stages of trade, fluctuating between the second and third, this should not distract attention from the point that trade takes place between nations at a given moment in time, when these nations, as well as the industries and regions within them, are differently circumstanced, thus requiring different strategies in a policy sense in respect of *all* of these areas.

Reception

Such perspectives, taken as a whole, mean that policy recommendations must always be related to the circumstances which prevail. Joseph Schumpeter's description of the work done by Steuart's contemporary, the

Italian economist Galiani (see Hutchison 1988: chap. 15) thus applies equally to Stuart:

One point about his thought must be emphasised...he was the one eighteenth century economist who always insisted on the variability of man and of the relativity to time and place, of all policies; the one who was completely free from the paralysing belief, that crept over the intellectual life of Europe, in practical principles that claim universal validity; who saw that a policy that was rational in France at a given time might be quite irrational, at the same time in Naples...
(Schumpeter 1954:293-4)

Stuart's work was extensively reviewed in 1767 but to a man the reviews found the advocacy of intervention difficult to accept. The *Critical Review* argued:

We have no idea of a statesman having any connection with the affair, and we believe that the superiority which England has at present over all the world in point of commerce, is owing to her excluding statesmen from the executive part of all commercial concerns.

(*Critical Review*, 23:412)

The *Monthly Review* went so far as to accuse Stuart of 'imbibing prejudices abroad by no means consistent with the present state of England and the genius of Englishmen' (*Monthly Review*, 36:465).

Stuart replied, with a logic more attractive, perhaps, to a later age:

Can it be supposed, that during an absence of near twenty years, I should in my studies, have all the while been modelling my speculations upon the standard of English notions...If, from this work, I have any merit at all, it is by divesting myself of English notions, so far as to be able to expose in a fair light, the sentiments and policy of foreign nations, relatively to their own situation.

(Stuart 1966:4-5; 1998:4-5)

In the last analysis, Stuart's perspective was Euro-centric, rather than Anglo-centric.

However, the charge levelled by the *Monthly Review* has proved to be resilient. Donald Winch, for example, recently remarked of the *Principles*, that:

the difficulties in making this part of Smith's context are well-known. To put it bluntly, one has to take on board a Jacobite traitor tainted with Continental notions and an author whose work was largely ignored by his Scottish contemporaries.

(Skinner 1983:268)

But Steuart fared rather better in other countries. It is interesting to note that an edition of the *Principles* was published in Dublin in 1770, an edition which enjoyed a wide circulation in America. Indeed, the work attracted the attention of Alexander Hamilton, whose protectionist position adopted with a view to offsetting the advantages of the British capitalist system, was to be supported by the work of List (King 1988:31; Redman 1996).

Although the problems facing Friedrich List (1789–1846) were very different from those which confronted Steuart, Kobayashi has identified some important similarities. List also confronted the problem of a relatively underdeveloped country in the face of English competition in arguing that it was necessary to offer a 're-organisation of the theory of primitive accumulation for use by backward countries' (Kobayashi 1967:27–28). He too recognized the need for 'a general theory of trade policy for backward capitalist countries' (ibid.: 30). The parallels extend to List's attempt 'to make clear the special structural characteristics of modern capitalism in countries differing from one another in (the) stage of development' (ibid.: 35). The vision involved parallels that of Steuart.

It is therefore somewhat ironic to note that List should have described Steuart's treatise as unscientific, and that he should have concluded that 'the author appears to have in view only the experiences and circumstances of England' (Kobayashi 1967:339–40).

But fittingly, Steuart enjoyed a contemporary vogue in Germany, where, as Keith Tribe has noted, 'until the final decade of the eighteenth century, Sir James Steuart's *Inquiry* was better known and more frequently cited than Smith's *Wealth of Nations* (Tribe 1988:134, 169). More recently Deborah Redman has elaborated upon Steuart's probable links with cameralism and the admiration in which he was held by members of the German Historical School of the nineteenth century (Redman 1996). Steuart's reception in Germany has been confirmed by Waszek (1993:166), who also pointed out that Hegel 'spent three months on the German edition' (ibid.: 172; Waszek 1988; Chamley 1963). The *Principles* was translated by J. von Pauli (Hamburg, 1769–70) and by C.F.Schott (Tübingen, 1769–72).

Although reception was relatively slow in France (Albertone 1994:138–9), the first translation was effected by Senovert (Steuart 1789). In the preface, attention was drawn to Steuart's interest in methodology and to his interest in the interrelated processes of economic, social and political development. Indeed, it was the presence of this analysis which led Senovert to the conclusion that the revolution which was unfolding before his eyes

was ‘dans l’ordre des choses nécessaires’ (Albertone 1994:268; Stuart 1966:24n.).

It was Stuart’s contention, based upon his knowledge of history and of contemporary experience, that ‘industry must give wealth, and wealth *will* give power’ (Stuart 1966:213 and n.). He thus concluded that ‘an opulent, bold, and spirited people, having the fund of the prince’s wealth in their own hands, have it also in their power, when it becomes strongly their inclination, to shake off his authority’ (ibid.: 216).

This is a chilling example of contemporary relevance: a troubling thought for the Stuarts and for the British in the aftermath of the French Revolution.

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JAMES STEUARTS APPROACH TO STABILITY OF PRICES AND ECONOMIC POLICY

The example of grain prices

Laurent Augier and Christine There

Introduction

The market and price of grain was a subject of major concern to Stuart throughout his economic research. He had already become interested in the subject in 1737. In 1749, he started a project which was to become his main work, the *Inquiry into the Principles of Political Economy*. The actual writing began in 1756, but he wrote the bulk of it in 1758 and 1759 (Chamley 1965). In 1763 he continued his research for Book IV, the manuscript was finished in 1766 (Skinner 1996) and it was published in the following year. At the same time, between 1758 and 1759, Steuart wrote *A Dissertation on the Policy of Grain*. As far as we know, this text was published by his son in 1783. In 1769, Steuart wrote his *Considerations on the Interest of the County of Lanark in Scotland*, proposing an economic policy regarding grain for the county of Lanark. This was published under the pseudonym Robert Frame (Skinner 1966:xlvii).¹

In his *Inquiry*, Steuart also devotes a number of passages to the question of grain prices. The important concept of double competition is illustrated by examples concerning the subsistence market.² Although various meanings may be ascribed to the term double competition, it appears that this concept denotes a market mechanism liable to involve a kind of market instability. The term stability in this context refers to the stability of supply and demand patterns, these two factors being defined by dividing the agents into classes. Each class is established in accordance with the different economic behaviours representing it. The introduction of a pattern of expected characteristics for each class helps to define the price dynamics. To the author, the concept of double competition is the synthesis of adjusting supply and demand within space and time. In defining this concept, Steuart proposes a very original analysis of the bargaining process between classes. An understanding of

double competition appears quite crucial to a characterization of the singularity of Steuart's 'economic model'. Reading this theory makes us wonder in particular about the degree of instability of the markets. Only a thorough study of the functioning of markets as a whole and their interdependence in Steuart's work can enable us to form an idea of the local or overall character of this instability.

We propose to contribute various elements towards answering this question through a detailed study of the workings of the grain market.

Steuart had a qualified opinion about the smooth operation of the market with regard to the production and distribution of subsistences. The limited efficiency of the market largely explains the ideas Steuart developed about the implementation of economic policies to stabilize prices. The object of the economic policy he advocated thus approaches a 'classical' measure, since the stability of short-term subsistence prices appears to be an indispensable condition for the convergence of the economy towards a regime of stable long-term growth (Bidard 1991).

Our study of the grain market falls into two parts. In the first, we present the specific character of the grain market. The particular nature of grain reveals the limits of the market. The survival of the economy depends on reasonable pricing. In the second, we study the need for an economic policy on the basis of these observations. We first analyse the theoretical model of the economic policy of grain, before developing an example which applies to the county of Lanark.

Steuart's theory about the specificity of the subsistence market

Whether in his *Inquiry* (1767), his *Dissertation* (1759) or his *Considerations* (1769), James Steuart consistently emphasized the specific nature of the subsistence market. The issue of survival is essentially at the heart of this specificity, and hence at the heart of price. Having divided the population into classes, Steuart describes population survival in terms of the expression of demand and supply on the subsistence market. The price resulting from the confrontation between supply and demand of subsistences should make it possible both for the most numerous class to acquire the necessary quantities to make a living, and for the farmers to make a reasonable profit. The general principles governing exchange apply only partially to those concerning goods of first necessity, especially food products.

According to Steuart's definition of trade,³ the presence of merchants is one of its main characteristics. This originality has been pointed out (Rebeyrol 1982). The existence of three categories of agents—producers, consumers and, of course, merchants—implies two kinds of exchange: the kind that takes place between merchants on the one hand, and the kind that takes place between merchants and non-merchants (i.e. producers or consumers)

on the other. Steuart considered the term ‘trade’ to apply exclusively to the first kind of exchange. But this definition belongs to a particular context, the study of mutual ‘connections’ between trade and industry, and Steuart remarks that it only applies in connection with this subject. However, he immediately points out that trade can exist without industry, for the goods partly produced by nature can also be exchanged between men (Steuart [1767] 1967b:1 224), but at this stage he does not indicate whether or not the role of merchants is crucial.

When it comes to defining demand, Steuart insists on the fact that it does not always have the same effect on the market, depending on whether or not it includes a given commodity:

Seventhly, demand has not always the same effect in raising prices: we must therefore carefully attend to the difference between a demand for things of the first necessity for life, and for things indifferent; also between a demand made by the immediate consumers, and one made by merchants, who buy in order to sell again. In both cases the competition will have different effects.

(Steuart [1767] 1967b:1 234–5)

According to Steuart, the major issue is the source of considerable fluctuations affecting the price of subsistences, while there may be relative stability in the price of other commodities. The main difference characterizing the subsistence market is the fact that it often directly confronts the consumers themselves with the merchants, while, in Steuart’s opinion, the typical exchange takes place exclusively between merchants.

The author points out the importance of this difference and of its consequences when he develops the principle of double competition (Steuart [1767] 1967b:1 263–73). This double competition taking place between buyers and sellers is precisely the principle by which prices vary while staying within limits that always include a profit, but remain reasonable, and are such as both parties had hoped from the transaction. It can be considered as the factor which determines the gravitation of the current price around an equilibrium price (Rebeyrol 1982:10–11). But Steuart notes that the effect of the competition is not always the same, depending on whether it takes place either, on the one hand, between ‘merchants-buyers’ who are consumers themselves, or, on the other hand, between ‘merchants-sellers’ who are themselves the producers of the commodity (Steuart [1767] 1967b:1 269).

Since between merchants, both parties have an eye on the profit to be realized, it is almost impossible to suppose that when competition exists on one side, whether it be supply or demand, it does not also appear on the other. But there are several circumstances in which double competition is not established, or does not last. Steuart points out three of them: the buyers are the consumers themselves; the situation of one of the two parties is

perfectly well known; competition is very strong on one side, so that it prevents competition on the other before the stock is sold or the entire demand satisfied. In exchanges of this kind, competition remains simple. To clarify his meaning, Steuart uses examples, the first of which concerns grain.

Grains arriving in a small quantity, at a port where the inhabitants are starving, produces so great a competition among consumers, who are the buyers, that their necessity becomes evident; all the grain is generally bought up before prices can rise so high as to come to a stop; because nothing but want of money, that is, an impossibility of complying with the prices demanded by the merchants, can restrain them: but if you suppose, even here, that prices come naturally to a stop; or that, after some time, they fall lower, from prudential considerations, then there is a possibility of a competition taking place among the sellers, from the principles above deduced. If, on the contrary, the stop is not natural, but occasioned by the interposition of the magistrate, from humanity, or the like, there will be no competition, because then the principles of commerce are suspended; the sellers are restrained on one side, and they restrain the buyers on the other. Or rather, indeed, it is the magistrate, or compassion, who in a manner fixes the price, and performs the office of both buyer and seller.

(Steuart [1767] 1967b:1 270–1)

In a situation of this kind, when a commodity of first necessity becomes scarce, Steuart conceives of three possibilities. The first, and the most probable according to him, is that when the demand is very high and largely superior to the supply, the stock of grains disappears from the market before prices naturally reach a certain threshold (the upper limit of the current price, cf. below) and the buyers can begin to compete. In the second hypothesis, enough time goes by for the prices to rise until they reach their ‘natural’ highest level—a price at which no buyer will be able to acquire grain—in which case the prices will drop and competition will start between sellers, and that is when the ‘balanced price’ may be reached. But this hypothesis depends on the behaviour of the buyers: if they are sensible (‘prudential considerations’), they will wait until the price is stabilized at a favourable level. And finally, in the third case, the public authority intervenes and fixes a price, and by so doing completely replaces the market.

The second example illustrates the opposite situation, the arrival on the market of an unpopular product:

A better example still may be found, in a competition among sellers; where it may be so strong, as to render a commodity in a manner of no value at all, as in a case of an uncommon and unexpected draught

of fish.... There can then be no competition among the buyers; because the market cannot last, and they find themselves entirely masters, to give what price they please, being sure the sellers must accept of it, or lose their merchandize. In the first example, humanity commonly stops the activity of the principle of competition; in the other it is stopped by a certain degree of fair-dealing, which forbids the accepting of a merchandize for nothing.

(Steuart [1767] 1967b:1 271)

This time, Steuart does not imagine a possible State intervention in the market, based on a humane principle; the entire loss is borne by the suppliers. Only the buyers, who will not accept any goods without giving something in exchange, can through their loyalty or 'fair-dealing' prevent the price from being nil.

The conclusion of the chapter devoted to double competition is essential. All the elements that normally regulate competition and contain it within certain limits (the quantity of stock available and the importance of the demand, the prospect of profit for both parties), the fact that it exclusively concerns the amount of the profits that can be made in the course of the transaction, and not the intrinsic value ('real value'; cf. 'How the Prices of Goods are determined by Trade': 1 244–6) of the commodity, which remains fixed ('nothing is ever sold below the real value; nothing is ever bought for more than it may probably bring', Steuart [1767] 1967b:1 272), and the possibility of reaching a balanced price—all these are called into question with the arrival of the consumers:

Whereas so soon as consumers and needy manufacturers mingle in the operation, all the proportion is lost. The competition between them is too strong for the merchants; *the balance vibrates by jerks*. In such markets merchants seldom appear: the principal objects there, are the fruits and productions of the earth, and articles of the first necessity for life, not manufactures strictly so called. A poor fellow often sells, to purchase bread to eat; not to pay what he did eat, while he was employed in the work he disposes of. The consumer often measures the value of what he is about to purchase, by the weight of his purse, and his desire to consume.

(Steuart [1767] 1967b:1 272–3, our italics)

Ultimately, Steuart has little faith in the self-regulating capacities of the market, although he provides a very advanced analysis of its processes, and particularly of the trade concerning goods of first necessity.

Steuart several times mentions another characteristic of the subsistence market: the fear of shortages, often unfounded or disproportionate, which hinders the natural regulation of the market and causes evil effects. This

fear, which can stem from false information about the real condition of available stocks, calls for the absolute necessity to provide oneself with goods to satisfy the most basic needs. So it is indeed a survival issue that underlies Steuart's conception of the subsistence market, and this market must be protected against, among other things, the 'sinister intentions' that may animate the merchants (Steuart (1759) 1967a:5 372). One of the main purposes of his political economy was, as we know, that all the inhabitants be fed and that everyone be provided with 'physical necessities'.

Thus the highly sensitive subsistence market may be subject to dysfunctions that only the statesman can remedy, and must remedy, because the survival of society is at stake. In his *Dissertations* as well as his *Considerations*, Steuart goes into details about concrete examples revealing the inefficacy of the market to provide the supplies and first necessity commodities of a population, while at the same time ensuring profits for those who procure them.

The *Dissertation* concerns the grain market in England, which the author had studied for about fifty years, and its situation in 1759. There were two major sources of disturbance: over-abundance and scarcity. When the harvest is particularly abundant, the part of the production that exceeds the population's subsistence needs causes a fall in prices which is detrimental to farmers. When the harvest proves inadequate, there follows an exorbitant rise in prices to the detriment of those classes who barely have the means to buy their food. The study he devoted to the county of Lanark leads Steuart to the same conclusions (cf. below). Adverse effects succeed one another: the slightest surplus of grains leads to a glut in the market and, as a result, to a sudden fall in prices; this in turn sets off an equally sudden sale of the goods and leads to their shortage, which is soon followed by a steep increase in prices. The search for a stable short-term price, as opposed to a long-term average price, as a result of a succession of rises and falls compensating one another, is a fundamental problem; subsistence prices cannot be subjected to such ups and downs, since they concern a vital demand which has to be satisfied immediately. Indeed, the consumer can rarely anticipate or put off his purchase.

On the reasonable price of subsistences

Steuart's criterion for evaluating the market is the price, and subsistence prices are subject to excessive fluctuations which make various categories of the population suffer. Chapter XXVIII of Book II of the *Inquiry* ('Circulation considered with regard to the rise and fall of the Price of subsistence and Manufactures') establishes the principles on which Steuart bases his case studies in view of proposing political measures.

The problem Steuart intends to solve is how to fix and determine the fundamental price of goods, which is subject to variations. He had already

defined the price of a manufactured product ('the price of a manufacture is to be known by the expence of living of the workman, the sum it costs him to bring his work to perfection, and his reasonable profit', Steuart [1767] 1967b:2 79) and asks himself how to determine standard prices of articles of first necessity. Such prices prove very difficult to determine in underdeveloped societies ('where simplicity reigns') and where, in particular, each agent produces subsistence goods.

'Sale alone can determine prices, and frequent sale only can fix a standard' (Steuart [1767] 1967b:2 80). The frequency of sale is thus an essential criterion. However, says Steuart, the sale of goods of first necessity can only occur if part of the population devote themselves exclusively to the production of articles that do not belong to this category, and therefore have to buy them. In other words, subsistence prices are a factor of the degree of the social division of work in a society; 'without industry there can be no sale of articles of subsistence; consequently, no standard price determined' (Steuart [1767] 1967b:2 80).

Another required condition is that each of the two classes should have in hand a commodity for trading; that is, the 'seller-producer' should have a 'superfluity' available of which the buyer possesses an equivalent to be able to acquire it. This mutual dependence is the cement of a harmonious society in Steuart's eyes. So Steuart concludes that the prices of articles of first necessity depend more on the occupation of the inhabitants and their distribution into classes than on the abundance of goods and the abundance of money to buy them (Steuart [1767] 1967b:281).

However, even in industrial countries, and hence the only countries where the standard prices of articles of first necessity can be determined, various circumstances may contribute to a rise or drop of these prices, as in the other countries. This leads Steuart to infer that there is no definite ratio between prices and the quantity of gold and silver in circulation.

The standard price of subsistences is determined in accordance with two criteria. The first is the number of those who have to buy, that is, those who do not produce them themselves and those who are not provided with them, in exchange for services, by the ones who possess them. Steuart here puts into one and the same category all the individuals involved in trade and industry and all those who cultivate land they do not own, in exchange for a salary rather than part of the product. The second criterion is the degree of occupation found by those who have to buy their subsistence (Steuart [1767] 1967b:2 82).

The number of buyers *almost* determines the quantity of subsistences sold. And this is because we are dealing with a necessary article that has to be procured by everyone in a certain quantity. Here we again come across the survival issue mentioned above. There follows a definition of the standard price of subsistences to which Steuart also refers in his other texts to establish the reasonable limits which market prices should not exceed.

In his *Considerations* (Steuart [1769] 1967c:5 290), Steuart gives an illustration of this fundamental principle (after referring to the passages from the *Inquiry* quoted above). He supposes that in the county of Lanark, the most numerous class which consumes oatmeal (this was the main food eaten in Scotland, where cereals to make bread are difficult to grow) consists of day labourers. They earn an average per year of about 3 shillings and sixpence a week. If the quantity of flour that is indispensable to feed them for a week costs more than 3 shillings and sixpence, they can no longer buy it. Since this quantity is *necessary* to them, says Steuart, a smaller amount will not be enough, and they will be famished.

It must be pointed out that Steuart, when describing the consumer class who are to serve as a reference, always starts out by saying that they are by no means *poor people*, of whom he provides a strict definition. The term poor must only be applied to describe the needy, the indigents who live exclusively on the charity of others, and must not be used to qualify those who provide for their own subsistence by working. The latter are useful to society and should always be able to take care of themselves, while the former are a burden to the State. Unlike individuals, however, the State cannot be charitable to the poor to the detriment of those social classes who provide subsistence for others (Steuart [1759] 1967a:5 374–5, Steuart [1769] 1967c:5 291). And the question about the poor ought to be dealt with on its own.

At the same time, the rationing of the lower classes has a direct effect on the market; if a significant part of the consumers withdraws from it, prices fall, creating difficulties for those who produce subsistences. So both in his *Considerations* and in his *Dissertation*, Steuart lays more stress on the second criterion that is to determine the subsistence price. It has to remain high enough to allow for a profit for the farmers and encourage agriculture. Prices must never be lower than those that the less privileged classes can support. Steuart believes that it is preferable to aim at enabling the lower classes to buy at high prices by providing them with a salary that allows them to do so, rather than lowering the prices. If the amount of the salaries is calculated in terms of subsistence prices, the latter will influence the price of other commodities: ‘This augmentation on the value of subsistence must necessarily raise the price of all work...because subsistence is one of the three articles which compose the intrinsic value of their [industrious people’s] work’ (Steuart [1767] 1967b:1 302). But once the price of a commodity is fixed in terms of the subsistence cost, the adjustments of salaries no longer depend on the changes in the subsistence cost, and the price of other commodities then only depend on their respective market. Merchants cannot profit from the drop in the subsistence price to lower the salaries of manufacturers, nor can the manufacturers claim a raise in salary to confront a rise in the subsistence price.

Elements for an economic policy on the subsistence market

The particular nature of subsistences and the erratic fluctuations of their prices led Steuart to propose measures for regulating this market. These measures and their applications are especially discussed in the *Dissertation* and *Considerations*. Before going into the elements of economic policy on the subsistence market, several points deserve to be emphasized. On the subject of market inefficiency, the theoretical consistency between the *Dissertation* and *Considerations* is remarkable, although the author suggests amendments as to the type of interventions.

Through the example of the county of Lanark, Steuart actually presents an adaptation of economic policy on the subsistence market in terms of the level of economic development.

The elements of economic policy: the plan of the Dissertation

We must now discuss the principles of economic policy proposed by Steuart. These elements are systematically analysed in his *Dissertation*. The main objective of this policy is the search for a stable price of grain in England. This price must gravitate around an average balanced price calculated on the basis of the chronicle of prices observed.

The instability of the price of grain is essentially explained by years of plenty and scarcity compared with the needs of the population: 'Plenty brought grain to so low a price, that the corn farmers could with difficulty pay their rents...this contributed greatly to augment the scarcity' (Steuart [1759] 1967a:5 349–50). Only the legislator can intervene to encourage the cultivation of new lands. Once the demand of the population is satisfied, the development of grain cultivation must also lead to producing a surplus. This stock is a means to providing for future years of scarcity. The existence of this surplus nevertheless has an immediate negative effect, for it generally provokes a drop in prices. To forestall this effect, while at the same time continuing to encourage the development of grain cultivation, the English government has, since the late seventeenth century, paid an export 'bounty' of 5 shillings a quarter when the price of grain was lower than 48 shillings a quarter.

The establishment of a mechanism for export bounty proved effective in encouraging farming while maintaining the price of grain at a reasonable level. But this policy regulated only part of the problem of price determination. Even if the variations in the drop of prices were well limited, this was not true of the variations in their rise.

The bounty-act had the desired effect of encouraging tillage, of supporting prices at a reasonable height...but it has not produced

the same good effect in preventing the exorbitant rise of prices in years of scarcity: something still remains to be done, in order to carry this branch of English policy to its full perfection.

(Steuart [1759] 1967a:5 350)

Without this intervention, the grain market was at the mercy of abrupt variations in price which destroyed agriculture and industry; ‘the perpetual discouragements of sudden and violent vicissitudes in the price of their markets, which destroy by turn both agriculture and manufactures’ (Steuart [1759] 1967a:5 351–2). Steuart thus proposed to complement the policy of export bounty by applying it to the grain market. The policy he advocated was to supply the market at a reasonable price in periods of scarcity (cf. above). Just like the export bounty, the intervention to limit variations in rising prices was not to interfere with the freedom of trade.

Before developing the arguments of his economic policy, the author defined its main objective: maintaining the proportion between the production of subsistence and consumption. The realization of this objective must be facilitated by defining several important concepts such as surplus and national provision. National provision corresponds with the quantities of grain that it is necessary to possess in order to stabilize the proportion. In periods of scarcity, for example, national provision is greater than the current production of grain. The State determines the amount of national provision which will maintain a constant proportion between the consumption and resources of grain; ‘the balance between subsistence and consumption in an even scale’ (Steuart [1759] 1967a:5 354). To make sure the proportion is stable, quantities of grain must be stocked during periods of plenty. In other words, during these periods the quantity of non-consumed grain must not be entirely exported. By the term surplus the author thus means the quantity of grain allotted to export trade after taking into account the quantities needed for possible periods of penury. In this matter the legislator must make sure that the quantities for national provision are not mixed up with the surplus destined for foreign trade. To Steuart this is a point that stresses the difficulty of reconciling the freedom of external trade with the priority of internal supply during years of plenty: ‘and the difficulty lies in reconciling the entire liberty of amassing grain in favour of exportation, with the plentiful and ready supply of inland markets’ (Steuart [1759] 1967a:5 354). Moreover, the State and the population can, by following a rule of ‘good œconomia’ (Steuart [1759] 1967a:5 353), respect the proportion to a certain extent by consuming in accordance with the current quantity (cf. above).

Having defined the concepts necessary for realizing the objective of stabilizing the average rate of consumption, the author sets out his plan for the grains policy. His first recommendation to the statesman concerns the need to find out the price of grains for the last twenty years, in order to calculate the average reference price. This leads him to insist on the

importance of calculation and information in order to realize this plan. Stuart then estimates that the maximum price above which the manufacturers are penalized is 48 shillings per quarter. On the other hand, the minimum price necessary for the maintenance of agriculture is 40 shillings per quarter. The current price level is judged reasonable when it is situated between these two limits.

Once the reasonable price has been determined, the details of the plan are outlined. The first stage of the plan, in order to establish lists of the people who are not employed in farming, mobilizes all the members of the nation:

all corporations, communities, or bodies politic, all hospitals, all manufacturers having the direction of large undertakings, all masters of collieries, iron-works, or mines within the nation; or, taking the thing on a larger scale, all cities, towns, and considerable villages.

(Steuart [1759] 1967a:5 356)

Granaries would be built according to the density of the population. The granary must in fact contain eight bushels per person.⁴ This quantity is sufficient to guarantee a year's supply to each person.

The implementation and control of the granaries are the duties of 'the commissioners of the land-tax' (Steuart [1759] 1967a:5 356). The commissioner is also responsible for remunerating the manager of the granary. The latter must accept the grain delivered by the farmers of the district at the price of 40 shillings a quarter until the granary is completely full. The author points out, however, that only the best quality wheat is accepted. In periods of plenty, the granary must encourage competition among farmers. That is why the grains of the preceding years, as well as 'secondhand' grains, are unacceptable:

That, in years of great plenty, when there may be a competition among the farmers for a preference to furnish the granaries, the commissioners may determine every question between them for the encouragement of tillage, and the inspiring of emulation. That no old grain be received, nor any from second hand, when competing with farmers of the district.

(Steuart [1759] 1967a; 5 356-7)

Once the granary is full, competition takes place exclusively between 'corndalers' as long as the price does not reach the upper limit of 48 shillings. The granary therefore must not influence the market when the current price is reasonable. If the price is 48 shillings, the offer of the granaries becomes effective when the merchants no longer supply grain at this price. Otherwise the quantities preserved in the granaries must not influence the market, for competition between corn-dealers, farmers and other elements on the market

is sufficient to maintain the price below 48 shillings: ‘the several granaries be opened; but with this restriction, never to be allowed to sell in competition with any corn-dealer, farmer, or other, who shall bring grain to market below this price’ (Steuart [1759] 1967a:5 357).

Having defined the policy of granary intervention, Steuart examines the conditions under which transactions can be made. With each grain deposit by farmers, the granary officials are authorized to issue an acknowledgement of debt (‘corn-bills’, Steuart [1759] 1967a:5 357) in payment for the grains. This acknowledgement is signed by the depositor, the granary official, an inspector appointed by the commissioner and ‘the receiver of the land tax’, Steuart [1759] 1967a:5 357). These acknowledgements circulate like banknotes all over the kingdom and are cleared by the banks. The farmer and creditor does not claim interest on this asset. However, the banks that buy it receive an interest until the date of reimbursement by the granary. The interest rate is determined by the legislator at an always reasonable level:

They (the titles) are to bear no interest while they circulate; but from the time of their being paid, the bank is to receive an interest of—*per cent* more or less, as the legislature and the bank shall agree.
(Steuart [1759] 1967a:5 357)

Once the monetary receipts of the grains sales have been collected, the receiver of the land tax reimburses the bank. The receiver is also responsible for accounting to the Exchequer about the corn-bills presented by the banks and for providing annual information about the growth rate of the corn-bills.

An example of the application of the grains policy in the county of Lanark

From the very beginning of his *Considerations*, Steuart points out how the contrast between stable and unstable economies calls for deep reflection on economic policy: ‘a remarkable difference between the chain of those which have for their object, a people living in one uniform and long established set of manners, and another, which is changing either for the better or for the worse’ (Steuart [1769] 1967c:5 281). For Steuart, the legislator’s decisions have important consequences indeed on economic activity as a whole. A wrong decision in economic policy can, for example, increase the instability of the economy.

To illustrate these questions, Steuart describes the difficult economic situation of the county of Lanark in Scotland in order to propose a plan of economic policy. This county of Lanark (the actual situation of which, in 1769, is to be made use of for the illustrating of general principles)’ (Steuart [1769] 1967c:5

281–2). This plan particularly concerns the markets of Glasgow, the economic capital of the county, and its environs. In this region, agriculture has not reached a degree of development comparable to those of industry and trade. The demand for subsistences is very high compared to the supply. Economic policy must remedy this imbalance. On the other hand, the price of subsistences is equally high because of the policy of ‘enclosures’. This transformation of farming production has, by furthering the demand for agricultural day labourers, brought about a rise in their salary. Due to this increase in costs, the farmers have raised subsistence prices. The stagnation of the population and the decline in trade are the major consequences of this rise: ‘since high prices are very advantageous to the landed interest, they must be hurtful to trade’ (Steuart [1769] 1967c:5 283). The author recognizes that this situation might bring out opposing interests of the merchant class and the farmers. Despite this evidence, Steuart points out that this opposition is not so obvious, since the causes of the conflict are also the result of the material conditions of supplying Glasgow. Building a canal between the rivers Forth and Clyde might be a way to stabilize the supply.

Before discussing the case of the county of Lanark, Steuart makes a digression regarding subsistence prices on a nation-wide scale. The policy of importing grain is crucial to this reflection. While recognizing the effect of imports on the drop in the price of grain, he proposes another less costly solution for the country. To do so, he distinguishes between the ‘year of scarcity’ and the ‘year of high prices’. The year of scarcity characterizes the inadequacy of current production with respect to demand. In such a case, only imports can remedy this lack of supply, for otherwise the entire population would perish. A year of high prices is observed when the harvest is just sufficient to supply the market. In this case, only the lower classes suffer. To prevent such situations, the legislator has to distinguish between scarcity and high prices. The way to do so is essentially empirical, according to Steuart. The amount of imports has to be compared with ordinary consumption. If the ratio of ordinary consumption to the quantities of imported grain is equal to 1:20 or 1:30, the economy is in a situation of scarcity. On the other hand, if the ratio is 1:8, only the prices are high. In times of high prices, the intervention on the market by building granaries is an efficient solution. In cases of grain scarcity, the situation becomes desperate and only imports can help. But if the authorities do not exercise control on the quantities imported in each port, importation becomes a ‘violent remedy’, with disastrous consequences on local farming. It is a political dilemma, since maintaining prices at a high level would penalize the lower industrial classes, while lowering the price would impoverish the farmers.

Apart from the ‘traditional’ solution of importing grain, raising the salaries of the lowest class of the industrious is another ‘expedient’. Both these measures are unsatisfactory, however, for they each improve the situation of one class to the detriment of another.

The solution of this dilemma seems to resolve in two expedients: the first...to open the ports for the importation of subsistence...the second expedient is this: to raise the wages of the lowest class of the industrious...both are violent remedies...the loss [by the reduction of prices] will not fall upon the high class of landlords, until their tenants are totally ruined.

(Steuart [1769] 1967c:5 299–300)

And finally, giving priority to a nascent industry as against a developing agriculture is not really justified.

Whether in England or in the county of Lanark, the question of the choice of policy to maintain subsistence prices reflects the opposition between the farmer and merchant classes. The high price of subsistences raises the rent of the farmers, while it reduces the profit of the merchants through the increase in the prices of manufacturers. The economic development of the county of Lanark depends fundamentally on the evolution of this conflict. Steuart proposes an effective economic policy to solve this opposition.

Just as there must be a just and stable proportion between the price of ‘oatmeal’ (cf. above) and the salary of day labourers in farming, so economic policy must also look for measures to find a stable price that is compatible with the interests of both classes. As a first step, Steuart seeks those with the lowest revenues among the professions employed by the merchants. The result of this survey shows that the buying power provided by these revenues is not incompatible with a reasonable price for the farmers. Besides, a very low price for manufactured goods is only necessary for external trade. And finally, it is the market of goods produced by the manufacturers that determines the salary adjustment (cf. above). These observations and principles show the advantage for trade of a long-term stability of subsistence prices. Indeed, reducing subsistence price variations to a reasonable level guarantees the manufacturers a stable consumption. So it is desirable to determine a fluctuation margin for the price of oatmeal. For Glasgow, the price must not exceed 1 shilling and must not drop below 10 pence. This measure should lead to improving the profit of the merchants and at the same time preserving the income of the farmers.

Building a canal will also improve supply to the Glasgow market. In winter this means of transportation more particularly facilitates the supply of subsistences and reduces consumption uncertainties in the county of Lanark. By opening the Glasgow market to a greater number of suppliers, the canal would contribute to lowering the price of oatmeal to a level comparable to that of other east-coast regions. However, the canal is not the only method to develop subsistence supplies. For an equivalent price, investing in the construction and maintenance of the roads of the county is economically profitable: ‘I have shewed how small will be the difference between the carriage of meal brought by the canal, and that brought upon our own

roads' (Steuart [1769] 1967c:5 331). The fact that the grain convoys had to travel through numerous towns before reaching Glasgow is a peculiarity of the county. This is an additional cause for the high average price prevailing in this region. But it is the county's state of development that explains the choice of the canal. The income of the population is too low to be able to finance the project and pay the toll taxes. This situation does not encourage the owners of capital to invest in the project. On the other hand, the toll tax on the canal is profitable because of the volumes transported and thanks to the high revenues of the users. This dilemma illustrates the close link between development plans and the economic and social conditions of the county of Lanark.

After proposing measures for an increase of supplies through the improvement of transportation, a second facet of economic policy concerns a more direct modification of the market supply. In the county of Lanark, unlike the other counties of the kingdom, the building of granaries would not be effective since the owners of oatmeal or grains did not have sufficiently large quantities to stabilize the market. Besides, the oatmeal farmers and merchants were so poor that it would be difficult to identify market dysfunctions adequately.

Since adjustment through the granaries is not efficient, Steuart works out a specific plan for the county of Lanark. By presuming that a quantity of 600 tons of Lothian oatmeal is sufficient to adjust the price of the other subsistences, he shows that the creation of a company of merchants to take charge of this stock is a solution like that of the granaries. At a later stage, the company can be transformed into a 'meal-bank'. Instead of the present high but uncertain profits, the merchants ought to prefer reasonable but certain profits from the bank. It would be a subsistence deposit bank that would complement market supplies in periods of penury. By a negotiated contract, the bank would be responsible for selling on the market at a price fixed in advance the quantities which the farmer was to deposit. For this intermediary service, the bank would collect a reasonable profit by way of a commission added to the sale price negotiated with the farmer. This procedure would also promote information within both space and time. The market remains open, however, since each farmer may, if he has an opportunity, sell at a lower price. When negotiating a contract, this price is an indicator for the parties. The contract binds the farmer to renew the deposit periodically. The main advantage of the bank is its storage capacity in Glasgow. The quantities sold by the bank on behalf of the farmers would never have been delivered by the latter because of transport and storage costs. A further advantage of this kind of bank lies in the flexibility and simplicity of its implementation. And finally, if this project of a deposit bank cannot be carried out, an effort has to be made to improve methods of supplying the county's markets.

The measures Steuart proposes thus lead to reducing the role of merchants in supplying subsistence goods by providing buffer stocks (granary, bank). The economic and social objective consists in the long-term stability of subsistence prices in the economy due to a policy of short-term intervention in the supply of subsistences. The overall plans for development aim at making the economy autonomous as far as farming is concerned. Reducing imports is also a condition for the long-term stability of the economy. These principles remain valid no matter what level of development the economy has reached. The example of the county of Lanark provides Steuart with an opportunity to stress the need for adapting economic policy to the existing degree of economic development. To improve ways of supplying the city of Glasgow, Steuart replaces the granary system with a new form of deposit bank to adjust subsistence supplies.

Conclusions

Although the mechanism of double competition serves to adjust most markets, this is not true of the grain market. The reason lies in the specific importance of grain as a means of subsistence. There is in fact a fundamentally asymmetric relationship between the supply of 'merchants' and the demand of 'non-merchants'. The former negotiate with a view to obtaining a maximum profit, while the latter have to acquire subsistence means. So the 'non-merchants' are under a constraint which often makes the market adjust in favour of the suppliers. Under these conditions, fluctuations in the price of grain are often abrupt and unpredictable. The demand of the 'non-merchants' makes the double competition ineffectual in stabilizing the price. Steuart therefore proposes the implementation of measures of economic policy to adjust supplies by building up stocks.

In the long run, a policy of regulating supplies will supplant the merchants from the grain market. A standard-rate tax is sufficient for financing stocks. Whether through granaries or subsistence deposit banks, the stocks will make it possible to sell grain throughout the year. If merchants intervene in the market, they will negotiate on the same terms as non-merchants (farmers, consumers), so that they are no longer distinguished by purely profit-making motives.

This is quite a paradox for a theory that has often and rightly been quoted in connection with the crucial role it gives to merchants. By reducing the merchants' importance as suppliers, subsistence prices are stabilized. In other words, the abrupt variations in the price of grains are not exclusively due to seasonal hazards. There also exists an intrinsic source of market instability, due to the behaviours of economic agents, particularly merchants. This is indeed a definition of instability, since, according to the supply and demand structure, the equilibrium price assumes specific values.

Regarding the relationship between double competition and economic

instability, there are two contrary effects at work. To begin with, the mechanism of double competition promotes the stabilization of the price of goods by stepping up competition between supply and demand. But its absence on the grain market can, in the long run, destabilize the economy. The erratic demographic fluctuations caused by penury and famine are indeed a decisive element in the long-term growth rate.

Steuart's theories are topical. The transition from a short-term to a long-term balance is still a stumbling-block for contemporary theories (Bidard 1991). The decentralized decisions of agents do not usually lead to the economy's convergence towards a regime of effective long-term growth. Faced with this dysfunction, the solution most frequently offered by contemporary authors is the one proposed by Steuart, namely State intervention.

Notes

- 1 Steuart also wrote a *Memorial on the Corn Law* in October 1777, but this text was not published. Cf. appendix to the edition of the *Principles* (1966) and Piteau (1995).
- 2 The author indiscriminately uses the terms wheat, grain and subsistence. In the present study we mainly use the term subsistence (*Dissertation*: 5 349).
- 3

TRADE is an operation, by which the wealth, or work, either of individuals, or of societies, may, by a set of men called merchants, be exchanged, for an equivalent, proper for supplying every want, without any interruption to industry, or any check upon consumption.
(Steuart [1767] 1967b:1 223)

- 4 The regulation of supply from the granaries does not seem to have been unanimously approved among Steuart's contemporaries. In this context, Quesnay uses the words 'chimerical projects' in 'Grains' (Quesnay 1958).

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JAMES STEUART

Economy and population

Jean-Jacques Gislain

In one of the earliest books on the history of economic and demographic thought devoted to the connections between economic and population theories, Strangeland points out that the contribution of James Steuart in *An Inquiry into the Principles of Political Economy* (1767) is ‘on that subject one of the best among the English authors of his generation’ (Strangeland [1904] 1966:287). Since then, further studies on the question have borne out this judgement.¹ However, a crucial aspect of Steuart’s work has been played down if not omitted. It concerns the population in the lexicographic order of problems forming the object of political economy. Steuart gives this question top priority.² To him, population is not a mere matter of means and resources necessary for the production of wealth or power; it rather constitutes an end in itself, an objective for society to attain, and is the essential aim of economy as a moral and political science. The size and welfare of the population are the measure of the performance of economic activity and the gauge of the ‘statesman’s’³ competence. If the results regarding this objective are mediocre or inadequate, the statesman is responsible for them, since they show his inability to establish the conditions for an economy that is beneficial to the population. The ultimate aim of political economy is full employment for a population able to work and multiply. The unemployed population is not only a non-population, since it does not have the means to exist and is therefore liable to disappear, but it is also an anti-population because, having nothing to offer in exchange for its subsistence, it hinders the growth of the viable population. Involuntary unemployment⁴ is the greatest risk for the population *in general*.

To reach this objective of full employment,⁵ the statesman must master the principles of political economy to be able to propose a ‘plan’ of economic organization for the benefit of the population.⁶ These are the principles Steuart seeks to establish in accordance with a demonstrative logic largely inspired by that of the economic circuit developed by Richard Cantillon ([1755] 1952). Indeed, among the many intellectual influences on Steuart in the course of his long stay on the Continent, the *Essai sur la nature du commerce en*

général appears to have played a crucial role in the structure of his arguments.⁷ Like Cantillon⁸ and the physiocrats, Steuart conceived economy in terms of a ‘circuit’. The economic ‘classes’ are defined in accordance with their respective economic stations and functions and ranked within the circulatory process of their incomes and expenditures. However, while agreeing with the general structure of this economic reasoning, Steuart makes major changes in it, allowing the population question a crucial place within the problematics of developing the principles of political economy.

First of all, unlike Cantillon, Steuart did not form his ideas about the principles of political economy within the limited framework of the contemporary period, in which the existing social classes, especially landowners earning ground rent, were considered as *natural* classes ensuring the harmonious function of the economic circuit. Steuart first tried to show that the *logic* of economic development necessarily implies the emergence of a circuit including several economic classes, so that classes other than farmers may lead to the growth in population. He also shows how this circuit may assume several *political and moral* forms. In setting forth this well-argued and hypothetical economic history, which is within the purest tradition of eighteenth-century philosophical history, Steuart proceeds in two theoretical stages. The first concerns the study of the circuit and of its various possible forms within a non-monetary economy, leading Steuart to form his *first principles* of political economy (discussed in the first part of this chapter) and economic policy (discussed in the second part). Then he discusses money and luxury, showing, on the one hand, how the historical class of landowners is doomed to disappear in a generalized market economy ruled by the system of mutual exchange between farmers and manufacturers (the third part of this chapter); and, on the other hand, how monetary policy, which is essential to economic development and stabilization and beneficial to the population, calls for rethinking the monetary institution (discussed in the fourth part of this chapter).

First principles

In the first chapters of the *Inquiry*, Steuart proposes a model for the emergence and development of the economic circuit, which leads him to form his first principles of political economy. His demonstration is organized as follows: at the initial stage of society, the population was limited by an economy of spontaneous fruits provided by nature. With the emergence of farming, the population growth ceased having a *natural* limit. It now had a technical limit, set by the capacities of agricultural production, and especially a *social* limit, the capacity of self-consumption by the farming sector alone. The lack of outlets that might have encouraged an increase in agricultural surplus limited farming produce to the sole needs of the farming population’s own consumption and growth. Under these conditions, the existence and

development of a population other than agricultural was logically impossible. The solution to break this stalemate was, according to Steuart, the rise of 'political causes' leading to the appearance and growth of a population other than farmers, but fed by a farming surplus. In short, the desired effect was to incite farmers to produce more for others. The emergence of an economic circuit consisting of the farming class and another economic class engaging it to produce a farming surplus proved necessary to make the population grow beyond the mere number of farmers.

Three solutions are possible, and historically confirmed, to lead to the rise of this additional population. According to Steuart, each of these solutions is a system of *political and/or moral* constraint to make farmers produce a surplus in addition to their own subsistence needs. These systems are respectively slavery, charity or mutual exchange between farmers and other producers. Through the system of slavery, the farming class is subjugated and forced, by political power, to produce a surplus for the class of lords and warriors. The leisure class of landowners and their levy of farming surplus in the form of rent are the historical results of this system. In addition to its own subsistence, this leisure class could then support a manufacturing class by spending part of its surplus to meet the moral pressure exercised on it by the statutory needs of its conspicuous consumption. Charity is the system of moral and essentially religious constraint to encourage farmers to produce a surplus to give to the poor, and thus to support a non-productive and non-agricultural population. And finally, the third system is based on the presence of another productive sector, the manufacturing sector, consisting of a population of 'free hands' who create their own means of existence by exchanging their manufactured products for the farming surplus. This system requires that the free hands, the 'industrious', be able to exercise a moral constraint on the farmers by producing manufactured goods that the latter find 'desirable'. That being the case, the farmers are induced, through the new wants⁹ that are to be satisfied by manufactured goods, to produce a farming surplus to obtain these goods in exchange.¹⁰ Out of the three systems, Steuart's preference lies in the mutual exchange between farmers and free industrial workers. From the point of view of production and population growth, the moral constraint to satisfy the new needs created by manufactured products is at least as powerful as the physical constraint of slavery, for:

slavery in former times had the same effect in peopling the world that trade and industry have now. Men were then forced to labour because they were slaves to others; men are now forced to labour because they are slaves to their own wants.

(Steuart 1966:51)

The slavery of wants has more universality as a *principle* of economics and hence of population. This principle is that ‘wants promote industry, industry gives food, food increases numbers’ (ibid.: 67).¹¹

It is quite significant that in working out his first principles, Steuart failed to discuss the initial form of the circuit, which was based on the device of a leisure class of landowners consuming the farmers’ surplus. Unless we assume that he compared it with the slavery alternative (which would not be too surprising), Steuart did not examine the political solution which was part of the circuit proposed by Cantillon and the physiocrats: the ‘necessary’ because ‘natural’ existence of a regulating and intermediary class, the leisure class of landowners, tapping the net agricultural product and spending it to activate both the agricultural and the manufacturing circuit. Steuart immediately chooses another economic solution which does not require the existence of a particular social class as an economic medium between the farmers and other producers.

Steuart’s fundamental idea is that the logic and dynamics of the circuit lie in the capacity of another class to encourage farmers to produce a surplus for its support. The political constraint, slavery or ground rent, having been discarded, only a moral constraint could induce the farmers to do so. And so the other class, that of the industrious, had to exert this moral constraint, and it did so by creating wants—and an ‘effectual demand’—on behalf of the farmers, who had to produce a farming surplus to satisfy these wants. It was this other class, the manufacturers, who were responsible for the economic activation of the circuit and the possible growth of the population:

Now because it is the *effectual* demand, as I may call it, which makes the husbandman labour for the sake of the equivalent, and because this demand increases, by the multiplication of those who have an equivalent to give, therefore I say that multiplication is the cause, and agriculture the effect.

(Steuart 1966:117)

By preserving the circuit system, Steuart replaces the natural class of landowners by the principle of mutual wants joining the farmers and the manufacturers. The system of mutual wants and reciprocal services between the only two productive classes, farmers and manufacturers, makes it possible to avoid the political device of the intermediary and pivotal class of the circuit, namely the landowners.

Moreover, this system of mutual needs has the enormous political advantage of ensuring a solid social link between the members of different classes of society:

The political œconomy of government is brought to perfection, when every class in general, and every individual in particular, is made to

be aiding and assisting to the community, in proportion to the assistance he receives from it. This conveys my idea of a free and perfect society, which is, *a general tacit contract, from which reciprocal and proportional services result universally between all those who compose it....* Hence I conclude, that the best way of binding a free society together, is by multiplying reciprocal obligations, and creating a general dependence between all its members.

(Steuart 1966:88–9)

As the manufacturers need the farming surplus to ensure their subsistence and the farmers need the free industrial workers to satisfy their needs for non-agricultural consumption, these two classes are in a perfect situation of mutual dependence. It is then no longer necessary for a *political class*, the landowners, to force the farmers to produce a surplus, for the farmers themselves are morally induced to do so by the ‘wants’ that the manufacturers have been able to arouse in them. Nor are the manufacturers, on their part, any longer dependent on a consumer class of landowners who have the farming surplus at their disposal, now that the former can directly secure an effectual demand of their manufactured products from the farmers.

Principles of economic policy

For Steuart, however, this organization of the circuit does not eliminate the need for political intervention in the economic sphere. The statesman remains responsible for the full employment and growth of the population and hence for the harmony between the actual economic situations and operating principles of this circuit with its two interdependent classes and economic sectors. Since the circuit is not self-regulating or self-moving ‘by nature’, the main task of the statesman is to conceive a ‘plan’ to supply their means of subsistence to the free workers, the part of the population that is both the most vulnerable and the source of population expansion. In other words, the balanced growth of the circuit and of the population depends on the employment of the free hands, on their capacity to exchange their products against farming surplus. Steuart moreover points out that his main object, in his book, is to discover a way to enable those people to buy who cannot do so at present and who, for that reason, do not multiply, having no equivalent to give to the farmers in exchange for their surplus.

To illustrate the way the statesman might intervene in this matter, Steuart proposes an example. The point is to change a population that has grown indigent into new free hands of the manufacturing class. To do this, Steuart recommends imagining different jobs for the indigent so that they may, through their work, produce an equivalent for the farmers to receive in exchange for their surplus. The activation of the principle of mutual outlets

between the two productive classes, on the initiative of the new manufacturers creating an effectual demand on behalf of the farmers, is thus the solution to be sought by the statesman.

‘A people, therefore, who have an industrious turn, will multiply in proportion to the superfluity of their farmers, because the labour of the necessitous will prove an equivalent for it’ (Steuart 1966:40). To sum up, ‘these are the reciprocal needs which the statesman must create, in order to bind the society together’ (ibid.: 40).

So apart from inducing population growth, another crucial aspect of the statesman’s political responsibility is to create a social link through economic exchange between ‘parts of society’. By discarding a situation of political domination whereby the landowning class acts as a pivot between the productive classes, and replacing it with an administrative plan in which the moral constraint of mutual needs forms a direct economic link between the productive classes, establishing mutual interdependence, Steuart significantly modifies the relationship between politics and economics. Politics becomes the guarantee of the social link *through* economics.

Under these circumstances, the statesman must conceive a plan to provide solutions for two major problems. This plan must enable all ‘free hands’ to become industrious, that is to conceive and produce manufactured goods stimulating an effectual demand, which will generate an equivalent farming surplus on behalf of the farmers. In addition, the plan must make sure that the moral constraint of wants weighs heavily enough on the farmers to supply the free hands with food, that is to make the farmers produce and exchange a farming surplus equivalent to the subsistence of the industrious. Otherwise,

such nations, whose statesmen have not the talent to engage the husbandmen to wish for the equivalent, which the labour of their fellow-citizens can produce; or, in other words, who cannot create reciprocal wants and dependencies among their subjects, must stand in a moral incapacity of augmenting in numbers.

(Steuart 1966:118)

A certain quantitative proportion between the sectorial productions, farming and manufacture, must also be maintained by the statesman to ensure social order. This proportion is the equality between farming surplus and manufactured products. Thus not only the population and the farming product must be proportionate, but the industrial population and the farming surplus must also be proportionate. This twofold constraint makes the economic question of population more complex, for it adds a ratio of sectorial proportionality, a problem of economic structure, to the simple overall relationship between subsistence quantity and population volume. Depending on the respective sectorial distribution of the population, agricultural production may happen to be economically excessive in comparison with

the limited needs of the industrious population, or because of the significant number of poor people who cannot offer the farmers an equivalent in manufactured goods in exchange for their subsistence. Overproduction and misery can hence co-exist. The statesman must therefore solve the problems of relative overproduction and/or overpopulation resulting from the sectorial disproportions. Thus, says Steuart, ‘agriculture, when encouraged for the sake of multiplying inhabitants, must keep pace with the progress of industry’ (Steuart 1966:41). Due to these constraints of demographic and economic proportions, the optimum of population is defined by Steuart as follows: ‘That number of husbandmen, therefore, is the best, which can provide food for all the state; and that number of inhabitants is the best, which is compatible with the full employment of every one of them’ (ibid.: 93).

Subsistence for all and full employment, proportions to be respected between sectors and between farming and industrial populations, these are James Steuart’s first principles of economic policy. Nevertheless, Steuart was well aware that contemporary economic reality is much more complex than the hypothetical world on which these first principles are based. Two elements of this contemporary reality, the origin of which is connected with the existence of the ‘class’ of landlords, are particularly important: money and luxury.

The historical disappearance of the class of landlords

When establishing his first principles, Steuart had not studied the historical form corresponding with the political cause that had brought about the specific kind of circuit involving an intermediate class, that of the landlords, between the farming and industrious classes. Steuart therefore had to correct his theory of the principles of political economy to include these elements of economic reality.¹² But unlike Cantillon and the physiocrats, Steuart did not present this class of landlords as a *natural* class. He rather apprehended it as an *historical* class, the two constituent elements of which, as far as the circuit was concerned, namely money and luxury, could be applied to the *economic* classes as a whole. Steuart thus did away with the economic specificity of the political class of landlords, making the historical disappearance of this class conceivable.¹³

To understand how this ‘disappearance’ could be brought about, we have to go back to Cantillon’s reference example. Indeed, while Cantillon, and more particularly the physiocrats, proceeded towards an identification between the *consecutive* classes within the logical sequence of the circular process and the *social* classes, Steuart differentiated them by defining them as *functional* classes according to their type of economic activity. Cantillon considered the landowning class as the initial class, the one that by nature had the economic and social function to start the circuit because of its spendings. The latter are purely monetary (without payment in kind),

statutory (ground rent), quantitatively limited by the surplus of agricultural production (net product), and qualitatively defined by the given tastes and preferences of the landlords (superfluities). Stuart, for his part, adheres to the idea of the initial impulse of purely monetary expenses, but he enlarges the economic dimension of the initial class to include those whom he calls 'consumers', meaning those who initially possess money without having had to supply an equivalent payment in kind, and who spend it on 'luxury'.

Stuart defines luxury, in a concrete sense and without any moral judgement regarding the wants that call for it, as any thing produced by the labour of man without being necessary, and as a consumption that gives employment and bread to the industrious. Luxury consists of consumer objects, of 'wants' that are not means of subsistence and that, by being purchased, provide the industrious with work and therefore with their means of subsistence. As an *economic* principle, luxury is a social device which provides for the maintenance of the industrious population. As a principle of *political* economy, it is thus beneficial to the population. Since luxury is made possible by monetary expenditure, the question of money is closely linked with that of luxury. Stuart then defines money as:

any commodity, which purely in itself is of no material use to man...but which acquires such an estimation from his opinion of it, as to become the universal measure of what is called value, and an adequate equivalent for anything alienable.

(Stuart 1966:44)

Money is defined by its economic functions and without reference to what might be its possible intrinsic qualities.

To sum up, in Stuart's circuit with its three economic classes, the figure of the 'rich' consumer, the money owner and member of the class that stimulates the circuit through spending money, supplants the landlord who owns the productive farming resources and their surplus. Although the 'consumer' is often the landlord, he can also be the foreigner or any other person who dishoards or disposes of credit. The consumer's initial expenditure is no longer reduced and limited to the net farming product. By stressing the initial possession of money by the consumers, and by attributing greater importance to the consumer's initial capacity to pay, Stuart radically changes the angle from which to analyse the circuit. The analysis now concerns the *solvable demand* and the *wants* that give rise to the *effectual demand*. The initial purely monetary expenditure now depends more on the decision to consume than on the decision to have a surplus produced. Altogether, the principle of wants and of the monetary means to satisfy them is now more important, within certain limits, than the purely productive principle.

By putting the accent on the system of wants¹⁴ and the ability to pay, Stuart changes the functional place of the consecutive classes in the circuit.

With Cantillon and the physiocrats, these consecutive classes, that is non-landowning classes who depend on consumer spending and, in general, on the economic decisions of the initial class of landlords, are to some extent inactive and routine-minded. They are doomed to adjust to the economic decisions coming from 'above'. With Steuart, on the other hand, these consecutive classes are no longer so passive within the circuit and even introduce new stimuli into it.

The farming class can also decide to produce a larger farming surplus depending on their wants in manufactured goods. By producing more, that is, above their means of subsistence and the ground rent, the farmers avail themselves of a greater ability to pay for manufactured products. As new consumers, the farmers play the same role as the initial class through their consumer spending with the manufacturers, even if these spendings are now no longer purely monetary, but consist of new mutual exchanges in kind with the industrious class.

As for the industrious class, it has the initiative to create wants among the other classes, and consequently industrial jobs from which to make a living. Steuart significantly reverses Cantillon's system of wants. We no longer have a *downward* explanatory model, from the initial class (prince, court, landlords) to the consecutive classes (farmers and manufacturers) who, at best, imitate the consumer models of the higher class; but on the contrary an *upward* model, where the initiative comes from the manufacturers who create and provoke wants among the landlords and farmers. This reversal changes the conditions for the expansion of the circuit and population. In Cantillon's downward model, the landlords ruled the destinies of the circuit through their choice of consumption following a coherence that was extraneous to economy (it belonged to what Norbert Elias calls the 'Court Society'). In Steuart's upward model, however, the industrious determine their own future and the future of the circuit by creating 'superfluities', sources of new wants among landlords and farmers alike, who will provide themselves with the means, either purely monetary or in products, to satisfy them.

Activating the circuit no longer depends, according to Steuart, on the landlords' initiative alone but on a threefold initiative: that of the industrious who, through their new products, 'create wants' in the other classes; that of the landowning consumers who 'respond' to these new products with new expenditures that are purely monetary; and that of the farmers who also 'respond' to these desirable products by producing a farming surplus to acquire them. To sum up, the process of circular flow as described by Steuart now has two mainsprings, rather than only one. In addition to the initial expenditure of Cantillon's circuit, a new mainspring has been brought to the fore, creating new wants at the initiative of the industrious. The continual stimulation and renewal of the system of wants stresses the social necessity for new expenditures and consequently a search for new abilities to pay. The response to these new wants by the landowning consumers induces them to

spend more and to seek new paying capacities by pressing for an increase in the farming surplus required for ground rent, by dishoarding, by drastically reducing their estate or by using and abusing their 'credit'. As for the farmers, they respond to these new wants by producing more farming surplus that is not levied by the landlords, so as to liberate new abilities to pay for the new manufactured products they desire, thus increasing the mutual exchange between farmers and manufacturers. Unlike the orthodox system of the circuit, this second mainspring brings with it the emergence, on behalf of the consecutive classes, of new paying capacities adjusting themselves to the wants created, rather than the contrary. Under these conditions, and with this second mainspring for the circuit, which is now partially freed from the political constraint of the landowning class, the population can grow at the rate of the mutual economic outlets created for one another by the manufacturers and farmers. By stepping up the system of developing reciprocal exchange between the farmers and the industrious, this generalized market economy gradually digs the grave of the political and historical class of landlords, whose economic role in the circuit can only continue diminishing.

This enlarged conception of the circuit¹⁵ radically changes the relationship between economy and population. Indeed, according to Cantillon's system,

the number of inhabitants in a State depends on the means of subsistence; and as the means of subsistence depend on the way the lands are implemented and used, and these depend on the wishes, tastes and lifestyle of the landowners mainly, it is clear that the multiplication or decrease of the population depend on them.

(Cantillon [1755] 1952:45)

The possibilities for the existence and growth of the population are ultimately determined, according to Cantillon, by the behaviour of the initial class of landowners. And since the latter is a 'natural' class, the volume and distribution of the population into consecutive classes, which are the result of the landlord's behaviour, are themselves a 'natural' measure.¹⁶ More precisely and according to Spengler, who summarizes Cantillon's idea:

demographic growth is conditioned by the volume of production, the way in which it is distributed, and the standard of living of the different classes of the population. More specifically, the population of a country depends 1° on the total amount of subsistences produced at the behest of the landlords or by themselves; 2° on the proportion of this total devoted to the maintenance of agricultural and non-agricultural manpower; 3° on the level of salaries and the standard of living of wage earners and contractors; 4° on the standard of living of landlords and well-to-do classes.

(Spengler 1942:118)

For Steuart, the ultimate factor determining the volume and distribution of the population is no longer reducible to the mere behaviour of the landowning class. The capacity of the industrious class to create employment for itself (and hence to multiply), by creating manufactured goods wanted by landlords and farmers, plays an essential part in determining population figures. The constant activation of the system of wants, accentuated by that ‘imaginary wealth’ which is money, offers prospects of population growth solely limited by the technical capacity of the farmers to increase the farming surplus and by the proportionate distribution of men into farmers and free hands. It is then the responsibility of the statesman, after making sure the sectorial proportions are respected, to devise a good plan for the development of moral conditions for the multiplication of the industrious through the multiplication of mutual wants and reciprocal exchange between farmers and manufacturers.

To sum up, the first principles of political economy established by Steuart in the first book of his *Inquiry* are crucial to his analysis. The class of landlords should progressively blend into the more general class of consumers and see their role gradually decline under the pressure of the system of wants governing the whole of the population. The twofold banalization of luxury, through its spread over all classes of society,¹⁷ and of money, through its dematerialization into credit money, eventually gave the mainspring of mutual outlets between farmers and industrials its essential place within the dynamics of the circuit and, as a result, the dynamics of population growth.¹⁸

Money and monetary policy

For Steuart, the monetary question was a central element in the smooth functioning and dynamics of the circuit,¹⁹ and since the statesman had to intervene to regulate the circuit on behalf of a numerous and fully employed population, monetary policy was the best instrument for this intervention.²⁰ Although, certain foundations of Steuart’s analysis were inspired by Cantillon’s circuit system, Steuart was, as far as monetary theory is concerned, a fervent advocate of the principles of John Law’s ‘system’, which Cantillon implicitly opposed (Murphy 1986). So it is not surprising to find Steuart following Law’s argument in lending the monetary question a crucial place in the relationship between economy and population. Joseph Spengler sums up Law’s demographic doctrine as follows: the development and volume of the population of a country and its optimum population depend on the country’s prosperity; in its turn, prosperity depends on the amount of money in circulation, and it can only reach its highest point if the quantity of circulating money is ‘sufficient’ (Spengler 1942:58).

Steuart was against the conception of money as a simple neutral medium of exchange.²¹ For Steuart, money was more than a simple neutral means of exchange, it was the active principle of the circuit. However, in his period,

this active principle was curbed by the material form of metallic species. The activation of the circuit was impeded by the material body of ‘commodity money’.²² The solution would be to conceive a *circulating money* which would have the same economic virtues as metallic money without its ‘physical’ drawbacks. The economic ideal of money would be a dematerialized money exclusively conceived as an instrument at the service of economic activity, not as wealth. For Steuart, this purely circulating money was ‘credit’;²³ a money that, although it had the same guaranteed value as metallic coins and could replace them, would ‘melt down’, that is disappear, once its economic function had been achieved.²⁴

Like Law before him, Steuart trusted banks of private initiative²⁵ to produce enough credit money in quality and in quantity to feed the function and growth of the circuit.²⁶ By relying on the force of the system of wants and on the guarantees offered by the rights of economic property,²⁷ Steuart believed in the initiative of the agents²⁸ and in the control of the statesman over bank credit.²⁹

Conclusion

On the whole, the principles of political economy are, according to Steuart, essentially the result of the relationship between economy and population. The statesman is responsible for reaching the full employment and (hence) the wellbeing of the population. At times when economic activity, having been left to itself, proves no longer naturally harmonious for the population, the political authorities have to assume their responsibilities and intervene by using the devices of political economy. The study of the workings of the economic circuit and of its dysfunctions, and the evil effects of the latter on the population, then form the central object of political economy.

In particular, if the latter proves, as Steuart believes, that money cannot fully assume its role in the material form of metallic species, it will be necessary to proceed to an institutional change as to what ‘money’ actually is. It will have to become a better device to activate the circuit properly, that is it will have to become a more abundant and dissolvable money of circulation, namely ‘credit’ money.³⁰

With the historical movement when trade became generalized and was spurred on by the evolving system of mutual wants between farmers and industrials, and once the flow of money to activate the circuit could be ensured by credit, the historical class of landlords ceased being an economic necessity to complete the circuit. The historical prospect proposed by Steuart then showed the way to the rise of an *economic* population and the end of the political class of landlords. Under these conditions, the duty of the statesman was to bring about the growth and full employment of the population.

Notes

- 1 See the classical studies in this field: Strangeland ([1904] 1966), Spengler (1942), Vialatoux (1959) and Perrot (1992:141–92).
- 2 The subtitle of the *Inquiry* unmistakably confirms this, since among the particular subjects he proposes to study, Steuart mentions first of all, before economic questions, the question of population. On the primacy of the population problem with Steuart, see Skinner (1981:24–5).
- 3 The word ‘statesman’ is used by Steuart as a generic term referring to political and legislative authorities as a whole.
- 4 Although Hutchison (1988:347, 350) and Karayiannis (1994:43) emphasize that Steuart was one of the first economists to take the concept and problem of ‘involuntary unemployment’ seriously, they do not relate this to Steuart’s more general problematics about the population and its development. This is no doubt one of the subjects on which Steuart and J.M.Keynes differ most widely, although in other respects, they have much in common (Sen 1947, 1957; Meek 1958; Chamley 1962).
- 5 On the objective of ‘full employment’, a term coined by Steuart (cf. Chamley 1962:309), see Sen (1947:22; 1957); Vickers (1959:241–2; 1971:1192); Akhtar (1979); Skinner (1981:29); Karayiannis (1994:43).
- 6 Steuart has been considered as the pioneer of the ‘economics of control’, which started in the 1930s and became dominant after 1945. On this subject, see Sen (1957) and Meek (1958). Recently, Karayiannis (1994) has put forward the concept of ‘managed economy’ to characterize the process of correcting and regulating the free market proposed by Steuart. On the other hand, the interpretation suggested by Hayek and supported by Anderson and Tollison that Steuart had an ‘enthusiasm for totalitarian economic planning’ (Anderson and Tollison 1984:464) can hardly be justified. All modern commentators about Steuart agree that he was more interested in economic welfare and economic policy than in a project of totally planned economy.
- 7 On this question of Cantillon’s analytical influence on Steuart, see Skinner (1962:27, n.38; 1981:25); Vickers (1971:1192) and Brewer (1992:616; 1995:628). Hutchison (1988:337) moreover identifies these influences: historico-institutional relativism from Montesquieu, Vico and Hume; cameralism from Becher and Justi; politico-economics from Cantillon, Child, Davenant, Law, Locke, Melon, Mirabeau and Petty.
- 8 On Cantillon, see Murphy (1986) and Brewer (1992).
- 9 ‘[W]hat we call wants, in contradiction to food, can be supplied by the free hands only.’
- 10 This is how Steuart summarizes the three possible systems to increase the population beyond that of the farmers:

The first is slavery, or a violent method of making mankind labour; the second is industry, which is a rational excitement to it; the third is charity, which resembles the manna in the desert, the gift of God upon a very extraordinary occasion, and when nothing else would have preserved the lives of his people.

(Steuart 1966:94)

- 11 Eagly identifies this principle of Steuart’s as the ‘aspiration effect’ (1961:53). On the ‘aspiration effect’ and the analytical use to be made of it, see Akhtar (1978, 1979).

- 12 In his analysis of contemporary economy, Steuart incorporates a particular category of economic agents, namely ‘merchants’ or ‘tradesmen’. On this question and on Steuart’s original analysis of the forms of marketing and competition connected with the presence of these agents, see A.Rebeyrol (1982).
- 13 Skinner has shown that Steuart agreed with the methodological approach of the authors of the Scottish historical school (Millar, Ferguson, Robertson) (Skinner 1962). On Steuart’s ‘evolutionist’ approach, see Grossman (1943) and Stettner (1945). On economic ‘progress’ in Steuart, see Doujon (1994).
- 14 On this question of ‘wants’ and the comparison with Hegel, see Chamley (1963).
- 15 Steuart’s enlarged system of the circuit must not be confused with the phases of the circuit’s development in nascent trade, export trade and domestic trade (1767:II, 94–104).
- 16 In general, as pointed out by Vialatoux (1959:90), the most widespread idea among eighteenth-century economists was that the ‘natural’ self-regulation of the population is ensured by the natural economic order. On this subject, see also Brewer (1995:611–13).
- 17 In this process of generalization of ‘consumer’ practices, Steuart attributes a non-negligible role to imitation and the quest for distinction.
- 18 For an attempt to formalize Steuart’s ‘model’, see Akhtar (1978, 1979) and Yang (1994).
- 19 On Steuart’s monetary conceptions in general, see Sen (1947), Vickers (1959, 1971), Skinner (1967), Akhtar (1978, 1979), Karayiannis (1994).
- 20 Within the limited scope of this chapter, we are mainly dealing with a closed economy, although Steuart also devoted much attention to questions concerning an open economy. On the state of research regarding these questions, see Perlman (1990), Deleplace (1994).
- 21 On this question, see Sen (1947:23), Skinner (1967), Hutchison (1988:338, 343), Karyiannis (1994).
- 22 ‘In order, therefore, to render material money more perfect, this quality of metal, that is of a commodity, should be taken from it’ (Steuart 1966:420).
- 23 Steuart distinguishes between ‘real money’—metallic money—and ‘the symbolic money of bonds, mortgages and accounts’—credit—(Steuart 1966:316).
- 24 According to Steuart,

the utility of this kind of credit, or paper money, is principally at the instant of its entering into circulation.... But in the after-circulation of this paper-money from hand to hand, this utility comes to cease; because the subsequent consumer, who has another man’s paper to give in exchange, is already provided with a circulating equivalent.
(Steuart 1966:328)

- 25 ‘Upon the right establishment of banks, depends the prosperity of trade, and the equable course of circulation. By them *solid property* may be melted down’ (Steuart 1966:478).
- 26 According to Steuart,

those nations...who circulate their metals only, confine industry to the proportion of the mass of them. Those who can circulate their lands, their houses, their manufactures, nay their personal service, even their hours, may produce an encouragement for industry far beyond what could be done by metals only.

So 'it appears that there is no impossibility for a people to throw the whole intrinsic value of their country into circulation. All may be cut into paper, as it were' (Steuart 1966:315–16).

- 27 'Credit therefore must have a *real*, not an *imaginary* object to support it' (Steuart 1966:439). 'Now what is this money but property, of one kind or other, thrown into circulation' (ibid.: 462).
- 28

The principle of private interest will serve as a general key to this inquiry; and it may, in one sense, be considered as the ruling principle of my subject, and may therefore be traced throughout the whole. This is the main spring, and only motive, which a statesman should make use of, to engage a free people to concur in the plans he lays down for their government.

(Steuart 1966:142)

- 29 The statesman 'ought at all times to maintain a just proportion between the produce of industry, and the quantity of circulating equivalent, in the hands of his subjects, for the purchase of it' (Steuart 1966:323). On the question of 'public credit' in Steuart, see Stettner (1945), Albertone (1994).
- 30 Among the authors of the following generation who were decisively influenced by Steuart, particularly by his approach to circulation and his monetary theory, Daniel Herrenchwand ([1786] 1980, 1796) is no doubt the most representative (Gislain 1995).

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STEUART'S THEORY OF MONEY AND SOVEREIGNTY

Maria Luisa Pesante

I

This chapter's aim is to provide a genetic account of Steuart's theory of money. By genetic account I mean a historical explanation—as distinct from an analytical reconstruction—of his views about money as a moral, political and theoretical problem, of their background, and the solution he proposed. His theoretical achievement in the field of monetary analysis is today universally appreciated. But the more the significance of Steuart's monetary theory is recognized, the more difficult it becomes to understand it in all its facets, which comprise a number of metallistic assertions. The importance of the latter for Steuart's view of the relation between monetary reform and economic development was reasserted at the Vizille conference (Eltis 1995), while other papers argued that Steuart contested both commodity and sign theories of money (Gérard-Varet and Rosio 1995). I would submit that a historical reconstruction of the way Steuart's theory of money was connected to his general political system and the tradition of discourse within which he wrote—which was the Platonic, as against the Aristotelian, Machiavellian or Ciceronian, side of British civic humanism—can account for apparently inconsistent statements. In so doing I shall have to redefine Schumpeter's taxonomy of metallism and cartalism, either practical or theoretical, which is in any case my starting point.

This taxonomy of monetary theories has proved useful to historians of economic thought on a number of accounts. It has provided a basic distinction for ordering a variety of standpoints; at the same time it has given a rationale for apparently conflicting views held by some authors. Schumpeter carefully qualified his scheme, warning his readers about the linguistic traps inherent in histories of social analysis when they reconstruct seminal moments; and he also limited his taxonomy to reflections on money in a strict sense.

As this taxonomy, however, is about ways of defining money, it is bound to have a more general relevance and to imply some problems. The first problem is that Schumpeter gave a definition by default of the cartalist

position, which left underdetermined the class of cartalist assertions. The second problem is that he surely provided a quite plausible explanation of why an author, while endorsing theoretical cartalism, might be a metallist from a practical point of view; but he did not explain the reasons for the opposite case—a metallist theory coupled with practical cartalism. In fact, we may wonder whether the two cases are conceptually symmetrical. Whereas it is not difficult to see why authors concerned with underdeveloped economies, for example Irish and Scottish writers, might wish to endorse the possibility of paper money, it is not so easy to understand how they could do that while holding to theoretical metallism. The third problem is Schumpeter's reduction of commodity theories of money to theoretical metallism, even if he was fully aware of this reduction's conceptual looseness. This reduction makes theoretically irrelevant any anti-metallistic stance in writers who nevertheless want to maintain that money has to be backed, or 'covered', in Schumpeter's phrase, by some commodity. Since any outright cartalist, either practical or theoretical, is so difficult to find before the twentieth century, while theoretical metallism appears now at best a particular case under more general theories of money, any historical research with Schumpeter's taxonomy in the background implies the question of why a theory of irredeemable paper money took so long to emerge.

As against Schumpeter's own explanation—confusion between historical origins and nature of money—Cesarano has recently pointed to 'the failure to provide a rationale of the value of paper money', and has connected this failure to the quid pro quo restriction in the exchange process inherited by pre-classical economists from the Aristotelian tradition (Cesarano 1990:332, 338). This takes for granted that these authors wanted to (but were unable to) explain the rules of the game when money was a sign, not a commodity. But we might ask what their actual intentions were. We also may ask whether this powerful tradition was the only one available to seventeenth- and eighteenth-century authors. Sir James Steuart, the only economist, in Schumpeter's words, to attempt to define an anti-metallistic theory of money at that time, is the most interesting case for answering such questions. I shall approach the problems we meet in reconstructing Steuart's theory of money by two routes: first, through a comparison between his arguments concerning money in the *Inquiry* and in the two essays on the German coin (1761) and the coin of Bengal (1772); second, by looking at his analysis of how money enters the circular flow of the economy.

II

In both essays on coins Steuart approached the 'principles of money' under the heading of the disorders of money, and specifically of the problems raised by bimetallism—a topic which was the subject of more lively debate on the Continent than in Britain at that time. Since Steuart thought that employing

metals as money was a customary fact, the fact that he took for granted the local situations and discussed the issues from a qualified metallistic standpoint need not surprise us. Yet in both cases we find assertions which are hardly compatible with major arguments in the *Inquiry*. In 1761 Steuart wrote that abusing the prerogative of coinage by imposing too high a price for coinage would ‘introduce paper money and truck within the country’, and this would in its turn banish trade from without (Steuart 1805:5 251). He seemed to imply that paper money was not just devoid of any utility, but also positively harmful. In a similar way, when applying his principles to the case of Bengal, Steuart seemed to rule out paper money except as a very limited form of credit, although the practical problem he was dealing with in this case was an acknowledged deficiency of coin. As far as principles were concerned, the new scene which in his words was opened by the metals’ inability to realize money ‘with the mathematical exactness of numbers and denominations’ turned out to produce regular coinage, not any form of irredeemable paper money (Steuart 1805:V, 7–8). As far as application to the specific case was involved, Steuart wrote:

I have without success investigated every principle upon which a paper currency, *under the authority, and upon the credit of the Company*, can be established. But the principle upon which this branch of credit is grounded, is totally incompatible with sovereign power. It is founded on private utility, and it has even occasion for a superior authority to keep it within bounds.

(Steuart 1805:5 81)

Steuart was resorting here to a staple argument of a particular kind of criticism against paper currency as it would be expressed in Britain against the financial and political management of the public debt after 1694. Country, Commonwealth and Tory opponents of the Whig establishment had asserted and were asserting that there was a risk of the sovereign appropriating the wealth of the country either directly (seizing the deposit) or indirectly (manipulating the value of the symbolic money). These critics of the government’s financial management, whose discourse has been defined as civic humanist, contended that irredeemable government paper—a sign—was current as money in the country, and that this meant a large part of the country’s property was vested in fiduciary money, whose value depended on the trust its owners must have in the government. They were bound therefore to become dependent upon the government’s stability, lest they should lose their money, and could not subsist as free citizens (Pocock 1975:423–61). Steuart here picked up the simplest part of this argument: the necessary separation between the sovereign and the management of symbolic money. But in the *Inquiry*, this management of symbolic money by the statesman is a major theme. So we have to discover what distinction he could see between

the different situations which enabled him to hold both sets of ideas at the same time.

Interestingly, he treated the Company as the sovereign—which before the parliamentary restrictions were enacted was functionally correct—and a particular kind of sovereign, moreover, i.e. an ‘absolute power’ that could be ‘supported by justice and common sense’. He likened the position of the Company to that of William the Conqueror, and claimed that ‘nothing prevents the Company from availing themselves of the principles of the feudal system of government, in the execution of their plan’ (Steuart 1805:579 and 80). We can notice at this point that in both cases where Steuart took a rather metallistic stance (Germany and Bengal) sovereignty appeared simultaneously absolute and precarious, and in the more interesting case of Bengal it was compared to an ancient kind of sovereignty in Europe. I mean to employ this implicit link between management of money and a kind of sovereignty as a clue to ordering Steuart’s different assertions about the relationship between coin, paper money as credit and irredeemable paper currency. The connection itself is traditional in European political and institutional culture. Control of money was one of the *magna regalia*, the kings’ major prerogatives. So we can recall that analysing the nature of money within discourses on sovereignty was common practice in the Aristotelian tradition of the medieval schools, as is best exemplified in Oresme’s *De moneta*. But before following up this clue one has to look at the way Steuart’s *Inquiry* explains how money might enter the circular flow of the economy. This is a critical point for any theory of symbolic money which purports to define the functions of the tool and the rules of the game.

III

Steuart described and analysed four cases of introducing or creating money. The four cases are parts of different arguments, and have different epistemic status, which has to be taken into account. I shall concentrate on two of them, while leaving aside the cases of banks and public credit (Pesante 1992:397–402). The first case is the invention of money as shown in Book I, Chapter 6 of the *Inquiry*. Here Steuart was explaining why the interaction between an increasing population and the shift to more and more productive ways of obtaining subsistence was neither a spontaneous and continuous process nor a self-equilibrating mechanism. Population growth was for Steuart, as for almost any writer at that time, a major instrument for promoting the State’s strength and asserting its independence. So the context of Steuart’s argument is the statesman’s scope of action in historical development. Two alternative roads to population growth were pointed out. In the first case:

the statesman shall force certain classes to labour the soil, and, with discretion, distribute the produce of it to all that have occasion for subsistence, taking in return their services for the public benefit; this will prove an infallible way of multiplying inhabitants, of making them laborious, and of preserving a simplicity of manners; but it is also the picture of ancient slavery, and is therefore excluded from the supposition.

(Steuart 1805:1 35)

There is a historical model behind the notional situation which is here described. This is the model of ancient political economy, and in particular that of Sparta. This model performed in Steuart's writings the main function of providing a contrast to highlight modern political economy. If at this point we add to the picture what Steuart said of Lacedaemonian political economy (Steuart 1805:1 344), we realize that there can actually be money of a kind in this situation, and it is symbolic money.

Failing the plan which implies slavery, the only road open to the statesman is that of destroying the simplicity of manners, and stimulating unnecessary wants. Therefore, if we want everyone to be free, the chosen path should be the one which introduces money and luxury. Here money is defined as any commodity which is useless to people for both subsistence needs, and assurance and insurance against risk, 'but which acquires such an estimation from his opinion of it, as to become the universal measure of what is called value, and an adequate equivalent for anything alienable' (Steuart 1805:1 42). Money, however, is invented and introduced into the circle of exchange between farmers and free hands (Steuart's phrase for producers of manufactured goods) not by the statesman, but by private inhabitants who happen to be owners of this useless thing, and are able to persuade their fellow countrymen that it is desirable, and an adequate equivalent for necessities. This money is a commodity, and its functions are primarily to be means of payment and store of value. This seems to be a model without any precise historical reference to back it, so it can be generalized. In Steuart's account money belongs to the category of cunning inventions—a category which played an impressive role in different versions of mankind's conjectural history at the beginning of the new sciences of society. If we try to separate conjectural account of historical origin and analysis of the ways this money works, we can see that in Steuart's version this conjectural history of the origins of money has a double status. It is both alternative history (the other story was one of statesmanship and slavery, and of a different kind of money), and a statement about the nature of money in any society which is free, luxurious, and not adequately governed by a statesman.

Behind both aspects of Steuart's argument lies the classical tradition, both Platonic and Aristotelian, in which gold—the current shape of money—was seen, ambiguously, as commodity and sign at the same time. In both cases

the moral and political problem with money was how to keep it the legitimate medium of exchange ministering to human needs, and how to rule it out as end or 'extremum', in a medieval writer's phrase (Karayiannis 1990; Langholm 1992:271, 583–8; Gordon 1961). Writers of the Aristotelian persuasion seemed to look for a solution in the restraints imposed on both sovereigns and subjects or citizens by coined gold, precisely because it was a commodity, and had material limits. A Platonic perspective—much less in evidence through modern intellectual history—would rather imply the attempt to reduce money to a sign which could not be desired in itself—as gold could—and could not therefore become autonomous from human interaction in exchanges. Stuart was arguing from this point of view when he was defining an instance of commodity money as the outcome of a process of fancy and persuasion. In his conjectural history, money is a commodity unfit for human needs in that it is typically made out of useless metals. In his social analysis, it is the child of imagination, in much the same way as neo-Machiavellian political economists were describing credit and paper money in the great political debate on public debt in the first half of the eighteenth century (Pocock 1975:490–7).

In Stuart's view, this fancy was to consolidate into custom, which made precious metals the common material for currency, but customary evaluation in itself could not solve the problem of the indeterminacy of value with which commodity money enters the circulation of commodities which, on the contrary, have a determinate cost-value. Further, on these terms money produces the class of people (presumably owners of lands comprising mines of precious metals) who are not producers, yet are consumers, since they have money to pay with (how they are able not to exhaust their fund of money after the initial situation is not explained here). Since this class of people (that are now called the rich) can force the other to produce a surplus to be exchanged with money, but ceases itself to produce goods, the community's total output shall increase only if they are prepared to spend their money not just on the necessities of life, but also on luxuries. The whole process therefore implies at the same time increase of demand and shift of power.

A remarkable feature of Stuart's description of the invention and first introduction of commodity money is the lack of any emphasis on the functions of money in providing a standard of account and facilitating exchange. This is not so by chance; it advisedly points to the problems and dangers involved in dealing with this kind of money. In contrast, when Stuart comes to analysing the republic of Lycurgus, 'the most perfect plan of political œconomy, in my humble opinion, anywhere to be met with, either in antient or modern times' (Steuart 1805:I, 332), the iron coin necessary for carrying on the small internal circulation in Sparta is described as a bank note of no intrinsic value, 'a middle term introduced for keeping accounts, and for facilitating barter' (Steuart 1805:I, 344).

We can see at this point that the two cases, representing respectively ancient political economy and modern political economy in an unspecified form, embody different political options. We find here, first, symbolic money as standard of account and means of exchange in a bilateral barter economy, and second, commodity money as means of payment and store of value plus inefficient standard of account in multilateral transactions (Gérard-Varet and Rosio 1995). Steuart's starting point defines the theoretical alternatives before him in a quite different way from that now taken for granted by economists who have in mind a later theoretical debate. In Steuart's view, as exemplified in his model republic led by statesmanship and capable of political choice, symbolic money (stamped on poor material) functions, in effect, as a standard of account and means of exchange in what is actually a barter economy. On the contrary, in modern (i.e. post-classical) European societies precious metals do not find their main function in facilitating exchange, which of course they do facilitate, but in a relatively inefficient way. They induce people, rather, to produce a surplus which is believed equivalent to the quantity of money producers (husbandmen and freehands) want to get, although not necessarily corresponding to the quantity the rich, who possess it, wish to spend. Since changes in the quantity of money which circulates do affect the level of real outputs in the economy, neutrality of money is impossible.

IV

I wish now to analyse the second case in which money is introduced in Steuart's theory. This is part of an argument about a modern statesman's tasks, which has nothing to do with conjectural history; it belongs to an entirely analytical approach, once certain conditions are assumed. The context of this argument (in Book II, chap. 22–7 of the *Inquiry*) is rather complicated, as Steuart is discussing here notional processes which are taken as relevant within the historical reality of modern Europe. Two different schemes therefore overlap. The first is the notional sequence of infant, foreign and inland trade; the second is the sequence of three stages in the history of Europe's political revolutions—the feudal government, the period of confusion, the time of public revenues and general laws (the last may be called the fiscal state). Moreover, the notional process is presented as cyclical, whereas the history of political revolution in Europe implies a linear time sequence. A relation between the two schemes, however, is not stated; therefore the status of Steuart's assertions is not always clear. I take his argument about the way in which a modern statesman ruling over a society that is still in 'a state of simplicity' might enlarge monetary circulation to be a model building of sorts, for both analytical and practical purposes, within the actual historical conditions in Europe.

These conditions can be specified as follows: all individuals are free (which

means all policies that have to rely on slavery are ruled out), money and trade have already been introduced, the community is divided in three classes: farmers, free hands and those who directly own the surplus (Steuart 1805:1 63). Precious metals have become the customary material of money, and this means that the statesman cannot, in conditions of freedom, change all of a sudden this customary evaluation of the equivalent. Steuart himself identifies this situation as that prevailing in Europe some 200 years before his time (Steuart 1805:1 82). The situation described provides the moral background for the modern statesman to act along two well-known lines. In every country where simplicity prevails', he first must act as an intermediary between hoarders and people 'who have both solid property and a desire to consume; but who, for want of a circulating fund to purchase superfluities, have hitherto lived in simplicity' (Steuart 1805:II, 57). As metallic money which does not circulate does not exist as such, in that it is wealth, but not money, the statesman needs here to transform bullion, however stamped, into money and introduce it into the economy by way of credit. It is part of the customary handling of money, and the credit bears an interest.

The second move the statesman can carry out is to create paper money which does not bear any interest. This argument is part of an attempt to skip the moral and theological bar on interest itself, and this context should be taken seriously in order to understand Steuart's stance.

Let him open an office, where every proprietor of lands may receive, by virtue of a mortgage thereon, a certain proportional value of circulating paper of different denominations, the most proper for circulation. He may therein specify a term of payment in favour of the debtor; in order to give him an opportunity to call in his obligation.... But this term being elapsed, the land is to belong to the creditor, or the paper to become payable by the state.

(Steuart 1805:2 58)

Since this paper bears no interest, and is made good by the state, it is a final means of payment and therefore circulates as money, not credit. It implies, however, a transfer of the output of seignorage from the state to the consumers who get credit; and, ultimately, the creditor/debtor relationship is cleared by an exchange of goods or specie. Debtors, if they are unable to recall their paper, give an equivalent in land for it; creditors shall get specie for the additional product which is brought into being by the additional demand. Thus paper money is not issued by the government out of nothing; it is endogenously created by individuals within an institutional framework provided by the State, and it is the outcome of a triangular relationship between debtor, creditor and statesman. But we have here no monetary economy in the strict sense defined by the circulation approach; we have rather a credit economy with final barter. At the end of the process, the

money so created can either be kept in circulation or destroyed, according to the preferences of individuals and the necessities of trade.

The utility of this kind of credit, or paper-money, is principally at the instant of its entering into circulation; because it is then only that it supplies the want of real specie; and by this invention the desire to consume creates, as it were, the circulating equivalent, without which the alienation of the produce of industry would not have taken place.

(Steuart 1805:2 60)

In similar ways, Steuart says, the whole intrinsic value of a country can be thrown into circulation (Steuart 1805:2 41).

If we now compare Steuart's explanation of this credit money and his formal definition of commodity money at the beginning, we see that symbolic money which is created by credit is not money in the same sense of the formal definition simply because gold is the wrong commodity for cash base. Schumpeter remarked that Steuart's use of the word 'commodity' in that initial definition did not 'make him a metallist. For a commodity that, by definition, is incapable of serving any purpose outside of its monetary function is not a commodity in the relevant sense of metallist theory' (Schumpeter 1954:297). But we have seen that in fact Steuart ruled out any purpose of subsistence or existence, not any purpose whatsoever other than that of serving as money. On the other side, on Schumpeter's own terms, Steuart's paper money is actually 'covered' by some commodity; quite simply, the commodity in question need not be in itself 'of no material use to man' for 'being well fed, well clothed, well defended against the injuries of the weather, or for securing us against every thing which can hurt us', as in the initial definition. Typically, this useless commodity is a precious metal, gold or silver, whereas the commodities which constitute the base for Steuart's paper money are land, houses 'and every other thing which is of a nature to preserve the same value during the time of circulation' (Steuart 1805:2 40–1). Thus it seems that Steuart's credit theory of money was taking shape from within a conceptual framework which was distinctly anti-metallistic, but not in itself cartalist. The moment you say that money, either real or symbolical, is any expedient that can be 'fallen upon to keep accounts clear between' debtor and creditor (Steuart 1805:II, 39), and that any kind of commodity can be circulated by symbolical money in this function, the alternatives implied are not metallism and cartalism. They are rather money simply as a medium of exchange in a barter economy, and money as a power of command in a monetary economy. In this sense Steuart's theory might be seen as quite close to that of modern economists, who maintain that there can be a monetary economy as based on credit even if goods in kind are used as money of account, and that money is the

power of the creditor over the debtor (Heinsohn and Steiger 1983). As the European monetary history which is implied in Steuart's theory is the history of the co-existence of two different kinds of money, the theory itself appears to be meant to provide the modern statesman with ways of managing symbolic money within the conditions of modern freedom. We may ask at this point how that power of command by money is connected to the statesman's power of ruling a community.

V

The character of Steuart's statesman is a contentious issue. A number of scholars have described him as a contemporary authoritarian figure of a more or less nasty variety; others have rather pointed to similarities between Steuart's and Montesquieu's Lycurgus, both models of ancient republican virtue and sources of inspiration for Steuart's modern statesman (Redman 1996:54–5). A similarity is also commonly found between Steuart's idea of this role and that of the German cameralists (Tribe 1988:19–34; Redman 1996:57–61). The common ground is undeniable in that all of these authors were in a way neoclassical users of an inherited classical political language. But I doubt very much that a listing of similarities and dissimilarities can provide any historically adequate answer. We have rather to look more closely to the specific contemporary context of the problems Steuart addressed by employing a classical language.

'Statesman', according to Steuart's definition, 'is a general term to signify the legislature and supreme power, according to the form of government' (Steuart 1805:1 2). As Steuart also made clear in a note, the word therefore refers exclusively to the fullness of sovereignty, in whichever form of government, and denotes an ideal standard of political action in the sovereign power. Now, this is a Platonic character, and as in Plato's dialogue of the same name, the science and virtue of the statesman applies similarly to the governance of the household and the State, not because the State is a household, but because there cannot be any distinction within the royal art of governing men, which is both domestic and political. Both points (independence of the ideal standard from any specific form of government, and lack of distinction between science of the household, *oikonomiké*, and science of the state, *politiké*) are in sharp contrast to any political theory of the Aristotelian family. Steuart employed this strictly Platonic doctrine in connection with a theory of material dependence as the ground of legitimate political subordination, which shall be described below in brief. This theory of sovereignty as based in property relationships had been elaborated by republican writers of previous generations, for example Harrington, Henry Neville the author of *Plato redivivus*, and Algernon Sidney. This group of writers, whose arguments displayed a number of Platonic features (Scott 1993:149–54; Pocock 1992:xxi–xxiv; Pocock 1993:402–7), also showed a

lasting concern with ways of maintaining equality of conditions between the selected citizens who had to be sovereigns in a republic.

Now the ideal statesman who is supposed by Steuart to enact the institutional framework of paper money is the modern counterpart of Lycurgus in the present conditions of Europe. As the ancient statesman, in Steuart's account, re-established equality in Sparta, so his modern heir can provide the ground for the only form of equality which is possible in present conditions—the mobility of property.

The use of symbolical money is no more than to enable those who have effects, which by their nature cannot circulate (and which, by-the-by, are the principal cause of inequality), to give, to the full extent of all their worth, an adequate circulating equivalent for the services they demand. In other words, it is a method of melting down, as it were, the very causes of inequality, and of rendering fortunes equal.

(Steuart 1805:242)

That paper money should be a major way of fostering equality in modern societies was a running theme in that political economy, from Davenant onwards, which developed in Britain out of the political discourses of Harrington and neo-Harringtonian writers (Pocock 1975:423–61; Pesante 1992:377–9). The economic argument was generally that paper money was a way of breaking the monied men's monopoly of coined metals, lowering the rate of interest, and enhancing production. But the political thrust of the argument was that, in rich societies in which luxury prevailed, a change in the distribution of income was required in order to defend minimum equality and independence of the lower social groups; only an enlargement of circulation could make this change a smooth and peaceful one. Yet this process remained mostly unexamined. At the same time there was in these writers a deep ambivalence about paper money as relying on trust and imagination, and making citizens dependent on government, as we have already seen. Steuart's analysis of what he used to call the vibration in the balance of wealth—the change in income distribution—was carried out within this tradition of discourse, and provided an explanation of the way in which credit money was required for this change to happen, and of the sovereign statesman's or statesmen's ability to control the whole process.

As the quantity of circulating money in the modern economy is determined in Steuart's analysis by the relation between the propensity of the rich to consume and of the poor to be industrious, 'rich' and 'poor' are critical names. These names do not simply denote levels of income or identify economic functions. They are categories of the form of dependence which is specific to modern society. This is commercial dependence, which partly follows and partly co-exists with other forms of dependence and subjection

which constitute the basis of different kinds of sovereignty. While civil subjection of someone captured in war institutes a slave/master relationship, and natural dependence of children on parents is the foundation of domestic society, dependence upon another man for the means of subsistence is called by Steuart 'political' in that it is the first ground of sovereign power. This is the relation between masters and servants, lords and the lowest class of their vassals, princes and subjects—the last pair being not the labels of the generic form of sovereignty, but only of the patrimonial State (Steuart, 1805:1 316–9; Skinner 1962). 'He who depends totally upon the sale of his own industry, stands in the fourth degree: this is the case of tradesmen and manufacturers, with respect to those who employ them' (Steuart, 1805:1 318). There is strict correspondence between form of dependence and degree of subordination. But the crucial point is that this correspondence holds not just within the pairs of social types so described; it also defines the general form of sovereign power which legitimately rules over a society of masters and slaves, or lords and vassals, or rich consumers and free industrious poor.

I deduce the origin of the great subordination under the feudal government, from the necessary dependence of the lower classes for their subsistence.... I deduce modern liberty from the independence of the same classes, by the introduction of industry, and circulation of an adequate equivalent for every service.

(Steuart 1805:1 319)

This connection between the dominant shape of socio-economic relations and forms of sovereignty is a reworking of Harrington's theory of freedom and subjection in terms of the balance of property (Pocock 1978). It is employed in the same way as Harrington employs it to describe the shift from feudal government, characterized by 'arbitrary and undeterminate subordination between the individuals of the higher classes, and those of the lower' (Steuart 1805:1 323), to the rule of law in some modern European states, either through 'a bloody rebellion or a long civil war', or in peaceful ways. Steuart's schema is a reworking and revision of Harrington's theory on two accounts. First, both Harrington and his followers in the late seventeenth century focused their argument on the shift in landed property, from feudal lords to the commons. Second, neither of them was able to provide or interested in providing any explanation of the process by which this change happened. Steuart shifted his focus from property in land to wealth in a general sense (thus making money critical), and to the way in which accumulation of wealth in the hands of social groups different from feudal lords could change the form of the social relationship which distributed political authority in society, as William Petty, a neo-Harringtonian writer himself, had tried before him (Pesante 1996).

Since Steuart was working with a model in which specie money as

historically existing was an equivalent for things—consumable and inconsumable, personal services, and rights in and to things (Steuart 1805:2 33)—his explanation concentrated on the process by which the industrious poor could accumulate wealth in the form of money, so that the balance of dependence, subordination and political authority was changed. This is possible only in so far as the rich, who are consumers endowed with both land and money, are induced to spend their money to buy the produce of the industrious. But, further, the latter can accumulate wealth only if they are able to save a part of the equivalent (money) they receive (Steuart 1805:2 36–7). Income distribution really begins to change when the industrious save an increasing proportion of the equivalent they receive, while the rich increasingly buy consumable things up to the moment when they spend their money income and have to pledge their lands to get money, if they wish to go on consuming. If they are unable to repay debt and interest, as is likely to happen, the creditor (private bank or State), who holds the banknotes issued as credit money on their lands, shall become the proprietor. Thus money appears as a critical tool in stock formation precisely because credit is given to consumers.

This reconstruction of the precise problem Steuart was addressing in a contemporary British context accounts for a major difference between his theory of credit and credit money, and modern theories of the monetary circuit. In the *Inquiry*, credit is typically granted to consumers endowed with solid property, not to producers, even if credit to merchants is, of course, mentioned. Moreover, producers are typically industrious poor, not entrepreneurs, and the surplus which possibly accrues to them is the outcome of their choice between consuming and spending at the end of the circular flow of production, not of income distribution between capitalist and workers at its beginning. If such a situation is assumed as the starting point in the process of credit and money creation, it is quite obvious that paper money has to be covered by some solid property.

VI

I can now try to answer the initial problem of this chapter, that is the coexistence of metallistic and anti-metallistic assertions in Steuart's writings and their connections to his theory of sovereignty. Steuart employed a peculiar British political language, Harringtonian and neo-Harringtonian, to answer problems raised by British republican writers about paper money, the danger it posed to the citizens' independence, and the character of modern commercial society. His theory of symbolical and credit money was meant to answer their worries. If read within the neoclassical context of Harringtonian and neo-Harringtonian theories of sovereignty, and interpretations of modern economic phenomena, Steuart's historical description of the changing dependence relationships, and his analysis of the

concomitant role of money appear as a radical move. In civic discourses on credit and paper money, moral, political and economic dangers followed from the fragility of opinion and trust on which modern finance hinged. Hysterical imagination was shown as enhancing and destroying credit, and threatening the solidity of property and the integrity of personality, as paper could not be converted back into true gold—solid property. But Steuart had started by asserting that gold itself was an opinion. Hence no rescue from the mobilizing forces of commercial economy was to be found in resorting to the customary use of metallic money. His theory showed that, on the contrary, paper money backed by useful commodities and managed by a statesman could enable a society to exercise command over itself, its equality, freedom, wealth and power. He therefore contended that, besides the model classical republic, not to be recovered, and Gothic disorder and oppression, there was—and could be perfected—a modern system of freedom with its peculiar monetary system. The critical agent here was a Platonic statesman—whether a single man or a composite political body.

Two consequences follow from this reassertion of the necessary function of political virtue, in the tradition of the civic humanistic and Machiavellian ideal of the *vivere libero*, in connection with the Platonic aristocratic ideal of the philosopher-king or the guardians of the city. First, there is the withering away of civic participation, which is substituted by the statesman's action and his successful command of contingency. And this accounts for Steuart's arguments about the statesman's ability to order, manipulate and manage men as well as things, and the unnecessary and dangerous character of public spirit in private citizens. Second, the historicization of the forms of subjection and freedom means that the republican concern with equality reappears in a new shape. Since modern liberty (i.e. the rule of law) and freedom from arbitrary government, rests upon a degree of equality between the subjects, the statesman in commercial society is committed to preserving and enlarging this material basis of the constitution. Consequently, the modern statesman has to be able to manage money for the ends of equality of a free and wealthy society, in the way described above; and he is bound by the special constraints engendered by the dominant social relationship of his community. But since statesmanship is a normative ideal, not any sovereign is a statesman. On the other hand, only some societies do experience the circumstances under which paper money can be introduced against customary practice, and then adequately managed. This is the reason why the Company in Bengal, an absolute sovereign of the feudal type, and not benevolent towards its subjects, is not a sovereign which may legitimately issue paper money and adequately manage it. Nor can the German princes do so. Scots banks, however, as an autonomous institution of modern Scottish society, are presented by Steuart as able to manage an extensive system of credit money.

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STEUART ON MONETARY REFORM AND ECONOMIC DEVELOPMENT

His advice for the restoration of the Indian
economy

*Walter Eltis*¹

Introduction

In 1771 Sir James Steuart was invited to advise the East India Company on the reform of money in Bengal.² A year later in response to this invitation he published a 35,000 word report, *The Principles of Money Applied to the Present State of the Coin of Bengal*, and described this as ‘An INQUIRY into the Methods to be used for correcting the Defects of the present Currency; for stopping the Drains which carry off the Coin; and for extending the Circulation by the Means of Paper Credit’ (Steuart [1772] 1805:5 1).

The book goes far beyond monetary reform. Its fundamental concern is the achievement of prosperity and economic growth in the Indian subcontinent. He applies a good deal of the policy analysis of *The Principles of Political Economy* of 1767 to India, and goes beyond it in his precise analysis of the Indian coinage, which is as rigorous in its insistence on coins with an unchanging silver content as John Locke’s had been in 1692 and 1695.

Four years later in the *Wealth of Nations*, Adam Smith singled out Bengal as an example of an economy in economic decline. England and even more so North America are his examples of growing economies with an expanding capital stock and the ability to support a rising population. China is his example of a stationary state with a constant capital stock and population. Bengal is his prime example of economic decline:

where the funds destined for the maintenance of labour were sensibly decaying. Every year the demand for servants and labourers would, in all the different classes of employments, be less than it had been the year before.... The lowest class being not only overstocked with

its own workmen, but with the overflowings of all the other classes, the competition for employment would be so great in it, as to reduce the wages of labour to the most miserable and scanty subsistence of the labourer. Many would not be able to find employment even upon these hard terms, but would either starve, or be driven to seek a subsistence either by begging, or by perpetration perhaps of the greatest enormities. Want, famine, and mortality would immediately prevail in that class, and from thence extend themselves to all the superior classes, till the number of inhabitants in the country was reduced to what could easily be maintained by the revenue and stock which remained in it, and which had escaped either the tyranny or calamity which had destroyed the rest. This perhaps is nearly the present state of Bengal, and of some other of the English settlements in the East Indies. In a fertile country...where subsistence, consequently, should not be very difficult, and where, notwithstanding, three or four hundred thousand people die of hunger in one year, we may be assured that the funds destined for the maintenance of the labouring poor are fast decaying.

(Smith [1776] 1976:90–1)

Smith primarily attributes this state of affairs to the difference between what occurs when a country is governed by merchants, namely the East India Company, which lives off trading profits, in place of a sovereign, whose income will be derived principally from ground rents (*ibid.*: 636–41). Merchants preoccupied with the maximization of trading profits will deny a country the benefits of competition. A sovereign will welcome the benefits that competition can bring if it increases the population, national wealth and land rents, and therefore the tax base.

But there are important examples of countries which have pursued mercantilist policies including the granting of trade monopolies which have not thereby suffered a declining capital stock, frequent famines and a falling population. Smith merely touches on the root of the difficulty which was central to Steuart's analysis: the fact that the East India Company was an expatriate company whose ultimate interest was the accumulation of wealth in Britain. Smith insisted that those who governed Bengal in 1776 through their control of the East India Company would be guided in all their decisions by the knowledge that they would ultimately take their gains back to Britain, a country they far preferred to live in, as soon as these were sufficient to finance the affluent life-style they had come to India to attain:

It is a very singular government in which every member of the administration wishes to get out of the country, and consequently to have done with the government, as soon as he can, and to whose interest, the day after he has left it and carried his whole fortune

with him, it is perfectly indifferent though the whole country was swallowed up by an earthquake.

(Smith [1776] 1976:640)

Smith appreciated that the sole interest of the merchants who governed Bengal was to acquire a fortune which they would take entirely out of the country. Steuart developed the still more powerful argument that the entire revenue from what Bengal produced through the East India Company would belong to the Company and be banked in London. Hence, the more the Company produced and sold, the greater would be the tendency for bullion to flow from Bengal to London.

The continual drain of gold and silver from Bengal

Steuart's analysis in *The Principles of Money Applied to the Present State of the Coin of Bengal* centres on the impact of Bengal's falling money supply and the damage this caused to the real economy: 'The complaints of a scarcity of coin in Bengal, once so famous for its wealth, are so general, that the fact can hardly be called in question' (Steuart [1772] 1805:5 61). He attributes the loss of coin to eight separate causes and the tendency for all the net money receipts of the East India Company to belong to the Company, which will choose to accumulate these outside India, heads the list:

Before the existence of an internal revenue, in favour of European nations who traded in the commodities of the country, an equivalent in silver was constantly brought from Europe for the balance of Indian goods exported from Hindustan.

But upon the East India Company's acquiring a revenue, exceeding by far the greatest investments of Indian goods, the importation of silver into India ceased from the part of England; but the exportation of goods went on nevertheless...

The consequence of this was, to diminish greatly, if not quite to absorb that fund of domestic industry, from the exportation of which the country drew every year new treasures from foreign nations.

(Steuart [1772] 1805:5 61)

Because exports brought no bullion into India since revenues belonged to the East India Company in London, whatever Bengal imported (apart from necessary inputs into the Company's exports) had to be paid for from Bengal's remaining silver:

the goods exported from Bengal by the English, having occasioned no importation of money from England in return, the importation of goods from England, and from their Indian neighbours, must

have been paid with the money of Bengal exported, to the diminution of the general fund.

The articles of importation into Bengal...is therefore one article of drain from their original wealth.

(Steuart [1772] 1805:5 62)

Most of the further drains of currency and bullion which Steuart identified were due to the growing importance of Bengal as a centre from which trade was financed. Thus there is 'specie carried out by the [East India] Company for the China market' (*ibid.*), and 'The French, Swedes, and Danes...send each two ships to China yearly, from which country they import above six millions of pounds weight of tea'. Anything imported from China had to be paid for in silver, because until the opening up of large exports of Indian opium, China would only accept silver. The French, Swedes and Danes could borrow money 'from British subjects in our East India settlements, at a lower rate than they can procure it at Cadiz' (Steuart [1772] 1805:5 64). Similarly, the Dutch found it economic to finance their East India trade in India, while the French had 'considerable settlements on the coast of Choromandel [South-east India], and they have occasion for money to make their investments there' (*ibid.*: 65).

There were therefore huge simultaneous deficits in both the current account of Bengal's balance of payments, and in its capital account. The deficit in the current account occurred because the East India Company's export revenues were not returned to India, so India had to pay for its imports 'with its own money' rather than from export revenues. The deficit in the capital account was due to the growing importance of Bengal as a source of finance for international investment throughout Asia. These investments will have repaid profits and interest to the Company's employees resident in Bengal who mainly provided the finance. However, when immediate cash (and therefore specie) flows are examined, the annual outward flows from new investments will plausibly have exceeded what came back annually in the form of interest from past investments (which would appear as a surplus in the current invisible account in modern statements of the balance of payments).

Steuart therefore identified Bengal as a country which was all the time losing specie both because its exports were less than its imports, and because it was at the same time maintaining high levels of international investment. The latter would enrich a financial centre such as London or Amsterdam, but, in the case of Bengal, those financing the investments were mainly expatriates who would ultimately remove their accumulated wealth from Bengal and transfer it to Britain.

Steuart therefore saw the fundamental explanation for Bengal's falling money supply (shortage of coin) as the international drains of specie associated with its large and continuing balance of payments deficits on

both current and capital accounts. These were both ultimately attributable to the degree of control of economic activity by British merchants who would wish to enjoy the fruits of their profits in Britain and remove their capital from Bengal to do so.

There is an interesting parallel in *The Principles of Political Economy* in Steuart's analysis of the tendency for gold to drain out of Ireland because most landlords lived and spent their rents in England. Steuart supposes for purposes of illustration that because Irish estates fell increasingly into English ownership, 'all the lands of Ireland belonged to Englishmen residing in their own country'. The expenditure of rents in London would consequently 'circulate with other nations' and the demand for Irish produce would consequently fall because the expatriate landowners no longer purchased it. Hence:

By such a diminution of demand in the country, for the fruits of the earth, the depopulation of Ireland is implied; because they who consumed them formerly, consume them no more; that is to say, they are dead, or have left the country.

(Steuart [1767] 1966:371)

Steuart's Irish example is presented to dispute David Hume's proposition that international changes in relative prices will always produce a trade equilibrium in which specie flows from deficit to surplus countries are eliminated. In the case of Ireland the drain of specie is continual because expatriate landlords receive their rents in money paid in England, and the expenditure of their rents does not return an equal flow of specie to Ireland. Hence the Irish money supply falls continuously, which produces famine and depopulation. Similarly, in Bengal, so long as the revenues from trade are retained in London, and so long as Bengal remains a source of international investment without enjoying the benefits of a consequent accumulation of Indian-based capital, specie must continually drain out of Bengal to produce the famines and depopulation which Adam Smith described.

Steuart's particular brief in the paper the East India Company invited him to prepare was to advise on questions of currency but according to this diagnosis the principal source of shortages in the coinage and deterioration in its quality went far beyond mere monetary questions. He could only address the real underlying causes to a limited extent in a paper addressed to the Directors of the East India Company and it was his brief to be mindful of the interests of the Company and of Britain:

With respect to the great influence which the acquisition of the territorial property of the East India Company has had in intercepting the influx of money into Bengal, it is in vain to think of a remedy without sacrificing the interest of Great Britain, and of the Company

itself to that of Bengal. All therefore that can be done in this particular, is to carry on the trade to the best advantage for the Company and for this nation, consistently with the permanency of it. Not to kill the hen which lays the golden eggs [Bengal], but to feed her and preserve her.

(Steuart [1772] 1805:5 69)

Above all, it was necessary to arrest the continual drain of specie which must ultimately destroy Bengal as a productive source of wealth. With that general object in mind, Steuart addressed the two questions of the deficit in Bengal's current account, and the deficit in its capital account.

Steuart 's policies to improve Bengal's current account

Steuart saw the strengthening of Indian-owned industry and agriculture as the principal way of building up the exports of native Indians, whose revenues would benefit the current account because these would return to India instead of accumulating in London. He made a number of proposals to this end, some of which are close to those for strengthening economic activity in the *Principles of Political Economy*:

we ought to fall upon every expedient to procure for them articles of raw productions from every part of the world. We ought to encourage every branch of trade between them and the Indian nations; and we ought to protect the industrious inhabitants from the rapine and extortions of their Indian as well as of their European lords.

(Steuart [1772] 1805:5 70)

Many of these extortions took the form of detailed payments that had to be made to money-lenders and dealers or 'shroffs' as these are still called in India, and they extracted a high fraction of the economic surpluses that farmers and manufacturers generated.

large sums of money are yearly lent out to the occupiers of the lands of Bengal, in order to advance the improvement of the soil...the interest extracted for such loans is exorbitant, because the repayment of the capital is precarious. Could possessions therefore be rendered less precarious; could industry be put more under the protection of law...might prove...the best expedient for improving the lands.

(Steuart [1772] 1805:5 75-6)

The money paid by the labourers of the ground, is at present interrupted in its course, at every change of hands, until by the repeated shroffage, it comes at last reduced, as I may say, to a shadow.

(Steuart [1772] 1805:5 79)

Steuart proposed to ameliorate this state of affairs by establishing a land registry where ‘the whole lands of Bengal be valued’, and the rent of a whole district be payable by ‘some man of consequence, who may be considered as the superior lord of it, without giving him any jurisdiction which may enable him to oppress the people’. This proposal that revenues should be collected by ‘several of the most considerable people’ would prevent

the wealth of the country being swallowed up, as at present, by the shroffs, a set of people of no consequence for supporting the authority of government, but who, like a canker-worm are contrived to prey upon the vitals of the state.

(Steuart [1772] 1805:5 80)

The extractions of the shroffs were also to be reduced by establishing banks which would lend money at less exorbitant interest rates. Steuart proposed that a banking company should be established which would be regulated but not owned by the East India Company, and which would lend money to the Company. The Bank of England was founded on a similar basis in 1694 with an initial loan to the English government provided by its proprietors as its initial capital. Steuart believed that as the bank’s capital grew, it would act as

a check upon every one who may have it in his power to oppress the labourer or the manufacturer; because the profits of the Bank will depend much upon the credit of the inhabitants, and upon the preservation of their property.

(Steuart [1772] 1805:5 89)

The proprietors of the bank would be independent of the East India Company, and their whole property (Steuart added ‘in India’) would be pledged while they held their office as ‘security for their good administration’.

Steuart went on to insist that this banking company would be ‘open to natives as well as Europeans’. Steuart proposed that the bank should ‘open offices in all the principal cities of Bengal’, and that ‘the shroffs will naturally become proprietors’. He added that

They will be employed in a trade something like what they now carry on; but it will be so fenced in by proper regulations, that it will have every advantage and none of the inconveniences of the present practice.

(Steuart [1772] 1805:5 8)

Steuart continued,

What a new phenomenon in Bengal, a *Shroff* director of a bank, from a blood-sucker is become the protector of the labouring man! Interest does all. He sucks the blood because it is his interest so to do: He gives his protection from the same motive. By directing the interest of individuals to a proper object, good government is established.

(Steuart [1772] 1805:5 89)

The proposed new Bank of Bengal would play a considerable part in strengthening the indigenous industry and agriculture of Bengal. He believed it could help to finance state granaries which would reduce the role of the shroffs and improve the circulation of food:

In the proximity of great cities, and in very populous districts, granaries might be established, and part of the rents might be received in grain for the supply of markets, at a price proportionate to the plenty of the year.

(Steuart [1772] 1805:5 81)

If it be thought expedient to establish granaries, or banks for the circulation of grain; this Company [the newly established Bank] will be at hand for carrying on the operation.

(Steuart [1772] 1805:5 87)

The large current account trade deficit from which Bengal suffered was due to the predominance of the East India Company in Bengal's exports. The strengthening of the remainder of Bengal's economy would lead to exports and import substitution which would be paid for in specie which would return to Bengal.

I have endeavoured to find out a method for conducting those resources which proceed from herself (namely, the money that she at present possesses) into a channel which may set new engines to work in order to augment circulation and encourage her manufactures...

(Steuart [1772] 1805:5 88)

Steuart makes a number of statements about the need to strengthen indigenous industry and agriculture, and how this is to be brought about:

The foreign trade of Bengal is what alone can increase her wealth, or at least, keep the cistern full in spite of its many leaks.

It is a general maxim, that exportations enrich a country, and that importations impoverish it. But this is to be understood in the way of trade.

The exportations made from Bengal by the East India Company do not enrich it, any more than the importation of the spoils of the world impoverished ancient Rome.

The foreign trade of Bengal, as I am now to consider it, consists in the raw materials for their manufactures, and in that part of such manufactures as is sold for money brought into the country.

The raw materials are principally cotton, cotton-yarn, and silk. The trade in these articles ought at least to be free, not clogged with any duty, left entirely in the hands of the natives, and every protection and encouragement should be given to those who are concerned in it: even bounties might be granted if necessary.

(Steuart [1772] 1805:5 89–90)

In addition to bounties for exportation, Steuart proposed characteristically that the state could assist trade through quality control and price regulation:

That the manufactures of Bengal need encouragement, is certain, since the quality of goods is said to be inferior to what it was some years ago, while the prices are higher, and the supply less...all proper encouragement must be given to manufacturers.

(Steuart [1772] 1805:5 90–2)

He proposed that ‘Stamp offices might be established to ascertain their [local manufactures] being made without defect’ (ibid.: 80). Moreover:

such goods must be of a determinate kind, so as to come under a regulation of prices; and although the nature and the prosperity of trade require freedom on all hands; still this freedom is not incompatible with such regulations as may insure to the manufacturer the prices and profits which the Company suppose to be consistent with the interest of their own trade, and sufficient to produce a living profit to their industrious subjects.

(Steuart [1772] 1805:5 92)

Steuart reiterates a degree of distrust of competitive markets:

It is not true that an open trade is always the best. The argument for it is, that the competition between dealers will bring down the price.... I say, competition will never take place, except when the quantity provided is not sufficient for the demand, and on every such occasion, prices will rise considerably, and the advantage from the competition will not counter-balance the advantage of a steady and regulated price at all times.

(Steuart [1772] 1805:5 95–6)

But Steuart was not an out-and-out regulator:

when trade has for its object such goods as are produced or manufactured in different places, under different advantages or disadvantages, natural or accidental...prices cannot then be put under any regulation. The trade must be left free, and those who sell cheapest will supply the market.

(Steuart [1772] 1805:5 96)

As this covers virtually all but monopoly products, such as salt (which Steuart wrote about at length), his general advocacy was for price competition coupled with regulation to maintain the quality of manufactures, and to increase their international marketability.

Steuart's policies to improve Bengal's capital account

Bengal's currency drain was due to deficits in both the current account and capital account of the balance of payments. The strengthening of indigenous industry and agriculture would help to correct the current account deficit. His proposals with regard to the capital account took the form of taking business away from foreign borrowers of capital by creating conditions where British and Bengali merchants would be enabled to trade more competitively in certain markets in which foreign merchants were prominent.

Thus trade with China to import tea into Europe and North America involved a heavy use of funds borrowed in Bengal by French, Dutch, Danish and Swedish merchants. Steuart believed that conditions should be created where British merchants would undercut the French, the Danes and the Swedes and therefore outcompete them in the China trade which they would consequently take over in conjunction with the Dutch. These 'will ever continue the most formidable competitors to the English Company' (ibid.: 70) and Steuart judged that because Britain could not outcompete the Dutch it should work with them to take over the China tea trade. He believed that the East India Company itself should seize this potential trading opportunity:

Would it not...be an advantage for Great Britain, that the Company should engross so much of the tea trade, at least, as to supply the consumption of the British dominions, at whatever expence of silver such investments might be made? And, would it not be for the advantage of Great Britain, that such deductions of the Custom House duties should be granted upon the exportation of teas, as should enable the Company to undersell their rivals in every market?

[C]an it be said that the amount of the whole Custom House duty upon tea is able to compensate the advantage of so great an article of exportation as this would become, were the India company to undertake, in conjunction with the Dutch, the monopoly of tea for all Europe and America?

(Steuart [1772] 1805:5 71–2)

This proposal of Steuart's is a combination of mercantilism and the free market economics that was to be central to the commercial policy of Smith and Ricardo. Steuart is mercantilist in his belief that Britain will gain if it drives the merchants of other countries out of profitable areas of trade, but he recommends lower or indeed zero tariffs and duties for tea in a belief that these would be trade-creating because they would reduce the costs of those engaged in the tea trade in Britain and Bengal, which could greatly extend their level of economic activity.

At first sight it might appear that his proposals to extend trade financed from Bengal by merchants located there would do little to correct the adverse balance of payments capital account. If Steuart's proposals were adopted, more would be lent to British and less to foreign merchants, but most of the additional trade would be conducted by the East India Company, so any extra net profits would still belong to London like net revenues from the Company's exports, so there could be precisely the same tendency for profitable activities located in Bengal to produce outflows of specie to London.

Steuart remarks that adopting his plan to engross the European tea trade would 'stop the great drain of silver from Bengal' by 'sending silver from Europe [to Bengal] to the amount of all the teas imported' (*ibid.*: 73), but would not much of this silver be accumulated in the coffers of the East India Company and be directed to London when it could no longer be profitably invested in Bengal?

The silver would only go to London when it could no longer earn higher profits in Bengal, so the process Steuart describes would lead to the accumulation of silver in Bengal and not London if the combination of successful banking and a flourishing Asian trade was actually achieved and sustained. The combined profits from banking and commerce in Bengal could be high, and while much of the capital involved would be owned by those who would ultimately return it to London, they would only do so after it ceased to earn exceptional profits in Bengal. For so long as Bengali banking and commerce remained highly profitable, a growing fund of British-owned capital would be invested there, and a growing stock of silver would remain in Bengal to act as a monetary base for its expanding banking and trade.

Steuart's development strategy

Interpreted in this way Steuart's policy proposals for the correction of Bengal's simultaneous current and capital account trade deficits have three crucial elements. The first is the encouragement of the development of indigenous Bengali industry and agriculture through the establishment of sound and fair government, a reduction and if possible elimination of the transactions costs associated with the shroffs who absorbed much of the potential economic surplus of indigenous Indian producers, and the encouragement of industry through characteristic Steuart development policies which draw on those set out at length in the *Principles of Political Economy*. The second element in Steuart's strategy is the establishment of a bank or banks in Bengal, which would be run by Indians as well as Europeans to finance indigenous and European industry and agriculture. The third and final element in Steuart's strategy is the encouragement of the growth of commerce in Bengal. This would be European-led and financed and it would centre on the activities of the East India Company itself. Steuart saw great opportunities for the Company to capture a high share of Asian trade, because the other Asian traders, apart from the Dutch, could be undercut provided the London government adopted a helpful policy with regard to tariffs and duties, as it went on to do by the mid-nineteenth century. This triple strategy of a successful Indian industry and agriculture, expanding British-controlled commerce, and the introduction of banking to India under mixed control and ownership was Steuart's strategy for creating conditions where specie would flow into Bengal instead of all the time draining from it.

This complex three-pronged development strategy which was aimed to arrest and reverse Bengal's continuing loss of specie is by far the most important element in Steuart's contribution, but he did not neglect the reform of the coinage which was the subject of the first half of his book.

Steuart's proposals to reform Bengal's coinage

A satisfactory coinage which was all the time melted into ingots and exported to London would have done little to ameliorate Bengal's chronic monetary difficulties. The prime necessity was policies to arrest Bengal's continual monetary drain and Steuart provided these. But an unsatisfactory coinage involves vast further transaction costs on every element of economic activity. Steuart vividly describes the defects of Bengal's coinage:

There are various mints established by ancient custom, where the regulations, both as to the fineness, and the weight of the coins, are different, though their denominations be the same. From this, and from punching out holes, and filling up these holes with base metal, as well as wilfully diminishing the weight of the coin, after coming

from the mint, the currencies of rupees of different provinces are of different values...

The shroffs...business it is to set a value upon these different currencies, according to every circumstance, either in their favour, or to their prejudice.

When a sum of rupees is brought to a shroff, he examines them piece by piece, ranges them according to their fineness, then by their weight. Then he...values in gross *by the rupee current*, what the whole quantity is worth.

(Steuart [1772] 1805:5 18–19)

It is interesting that while Britain and France apparently had the technology to clip coins to make them smaller, and to hammer them to convert ‘narrow money’ into ‘broad money’ and to increase the proportion of base metal in the alloy from which coins were made, Europeans do not appear to have punched holes in their coins and filled these with baser metals. Steuart’s description of these sophisticated assessments by the shroffs before any money for any significant transaction could be spent represented vast and universal adverse transactions costs from which all India suffered.

Steuart’s solution was that the East India Company should establish a *current rupee* with a specific weight of silver (to be made of an alloy of 98 per cent silver and 2 per cent base metal), and that ‘all legal silver coins in Bengal...shall in future be valued, and shall have currency according to their intrinsic value relatively to this current rupee’ (ibid.: 52), and that ‘the only legal silver coin of Bengal shall, in future, be this rupee, or multiples of this coin’ (ibid.: 53). A charge of 2.5 per cent would be made by the mint for the conversion of silver bullion into ‘standard rupees’, and ‘all coin...which shall be found more than 1 per cent light of its standard weight, shall be received at the rate of *bullion at the mint*, that is to say, at 2.5 per cent below its weight’ (ibid.: 55).

Thus, as soon as silver coins became more than 1 per cent lighter than the official weight their denomination should have, they would have to be recoined at the mint and the 2.5 per cent premium that coins enjoyed over silver bullion would be lost to the current holders of the coins. This cost would have to be incurred whenever coins became more than 1 per cent light and therefore had to be recoined.

Steuart recommended that ‘no single piece of legal coin below standard weight, of whatever denomination or value it be, shall pass current in virtue of the stamp’, and that ‘coin below its standard fineness, shall have no currency at all as legal money; but may be delivered as merchandize as parties can agree’ (ibid.: 55). Thus, current rupees of an established standard weight and made of silver of a degree of fineness that was absolutely laid down would become the only legal tender for the settlement of debts. All other coins which their holders wished to use as legal tender money would have to

be taken to the mint and converted into standard current rupees of the requisite fineness and weight, and all previously minted coins would have to be converted into the new legal tender money by adding a 2.5 per cent charge to the value of the silver brought in to be recoined.

Once this new silver coinage was established Bengal would enjoy the benefits of a currency which could be utilized without further transaction costs. Stuart's proposal for the creation of a new silver currency was essentially what John Locke had proposed after the British currency had deteriorated in the 1690s.³ In 1695, John Lowndes, the Secretary to the Treasury gave a description of the state of the British coinage which resembles the conditions in Bengal described by Stuart:

In Consequence of the Vitiating, Diminishing and Counterfeiting of the Currant Moneys, it is come to pass, That great Contentions do daily arise amongst the King's Subjects, in Fairs, Markets, Shops, and other Places throughout the Kingdom, about the Passing or Refusing of the same, to the disturbance of the Publick Peace; many Bargains, Doings and Dealings are totally prevented and laid aside, which lessens Trade in general; Persons before they conclude in any Bargains, are necessitated first to settle the Price or Value of the very Money they are to Receive for their Goods; and if it be in Guineas at a High Rate, or in Clipt or Bad Moneys, they set the Price of their Goods accordingly...

[T]he Mischiefs of the Bad Money (too many to enumerate) are so sensibly Felt, that (I humbly conceive) they are sufficient to Confute all the Arguments against the ReCoining the same.

(Lowndes 1695:115–16)

In 1695 Locke argued strongly for a complete British recoinage into new silver coins with milled edges so that these could not be clipped, and that the weight of silver that made up the currency value of a pound sterling should be the same as the official silver weight a pound sterling had had before the recoinage. His proposal was implemented in 1696. In 1711, Sir Isaac Newton the great mathematician who had become Master of the Mint initiated a gold coinage in Britain, where an ounce of gold was established at a value of £3 17s 9d when bullion was brought to the mint to be coined, and £3 17s 10.5d when gold coins were brought to the mint to be reconverted to bullion. The mint's charge for coining gold was therefore no more than 1/622 of the value of any gold brought to the mint to be coined in comparison with the charge of 1/40 (2.5 per cent) which Stuart proposed that the mint of Bengal should charge for coining silver. But this high transactions charge for minting silver bullion into rupees also had the function of acting as a fine levied on those who allowed coins to become underweight.

The British recoinage of 1696 and the establishment of the gold value of the pound at £3 17s 9d in 1711 served Britain well, and the pound sterling remained at the gold value which Newton had established until 1931, with temporary devaluations which were subsequently corrected during the Napoleonic wars and the First World War. During the 220 years from 1711 until 1931 British prices of a 'basket' of six commodities rose just 29 per cent, or by about 0.1 per cent per annum.⁴

Locke's advice for the reform of the British currency was taken in 1696, and after that there were no complaints of adverse transaction costs associated with the use of British money. Steuart's advice in 1772 for a complete recoinage in Bengal was not taken, but Indian money was gradually reformed in the nineteenth century, and the balance of payments deficits which drained India of gold and silver had been more than corrected by the 1870s when Stanley Jevons referred to India as 'the sink of the precious metals, always ready to absorb the redundant bullion of the West'. John Maynard Keynes remarked in his first book, *Indian Currency and Finance*, which he published in 1913, 140 years after Steuart, that 'During the past sixty years India is supposed to have absorbed in addition to her previous accumulations more than £300,000,000 of gold (apart from enormous quantities of silver)' (Keynes [1913] 1971:70) At this time, Britain's national income has been estimated as £2,200 million so the gold in India amounted to about one-seventh of the national income of what was then the richest country in the world.

Conclusion

It is beyond the scope of this chapter to comment on how far India's vast holdings of bullion resulted from the adoption of Steuart's advice. India certainly became a centre of Asian trade and commerce in the nineteenth century and this resulted in gains and not losses of bullion. The gradual establishment of the rule of law through the British Raj greatly reduced the pervasive transactions costs about which Steuart wrote so vividly.

What is especially interesting about Steuart's proposals of 1772 is the extent to which they were actually close to market economics. His analysis on money and his practical monetary proposals were similar to Locke's. His emphasis on the importance of transactions costs and the scope for their reduction through the establishment of the rule of law is a central element in modern liberal market economics. His efforts to legitimize the activities of the shroffs, so that they would work in favour of the productive economy rather than against it, underlines the need to take advantage of self-interest instead of to override it. His proposals to reduce tariffs because the benefits from extra gains from trade would outweigh the costs of lost government revenues were in line with the analysis which produced Sir Robert Peel's extensive tariff reforms of the 1830s and the 1840s. In these matters there is little to separate Steuart from the economics of Adam Smith who published

his great book four years later. All that remains of the detailed planning and interventionism of the *Principles of Political Economy* is regulation to assist the quality control of manufactures, and a modicum of price control.⁵

In 1772 Steuart was writing to offer practical advice to a multinational company which controlled a nation, and he did not confine himself to detailed monetary questions. He showed rigorously that the solutions to Bengal's monetary difficulties required far-reaching changes in the structure of production, ownership and the government of Bengal. This led the distinguished Indian planner S.R.Sen to describe Steuart in 1957 as India's first Economic Adviser. This chapter has sought to show that his Indian analysis deserves serious attention alongside *The Principles of Political Economy* to which it adds important further insights.

Notes

- 1 Emeritus Fellow of Exeter College, Oxford.
- 2 See Skinner (1966) and General Sir James Steuart (1805) for accounts of the circumstances in which the invitation was issued.
- 3 See Eltis (1995) for a detailed account of Locke's proposals for the reform of the British currency in 1696, the controversy they aroused, and the long-term consequences.
- 4 Phelps-Brown and Hopkins (1981).
- 5 Anderson and Tollison (1984) and Eltis (1986) have emphasized the dirigisme and interventionism in the *Principles of Political Economy*, while Skinner (1981) has emphasized the extensive common ground between Steuart and Smith.

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STEUART AND SMITH ON BANKING SYSTEMS AND GROWTH

Sylvie Diatkine and Michel Rosier

Introduction

The history of economic thought traditionally presents Steuart and Smith as holding diametrically opposite views. Steuart is considered as one of the last great figures of the mercantilist school. Smith is said to have founded economic science by making a clean break with the wrong tenets upheld by this school for several centuries. This tradition has its roots in the rhetoric of the *Wealth of Nations* (Smith [1776] 1976). Here Smith pinpoints his enemy by coining the term ‘mercantilist’, in which he rather indiscriminately lumps together all those authors who have so far had the ear of the ruling classes. In addition he lends his argument the tone of a critique, which mainly aims at disqualifying all the ideas of this enemy.

However, since Heckscher ([1931] 1955), we know that the mercantilists were far from forming a unified theoretical school, even if they all acknowledged that the increase in money supply has a positive effect on the level of activity. And today we are gradually realizing that the classical school was no more homogeneous either, and that there was probably a solution of continuity between Smith and Ricardo (Hicks 1990). All this contributes to lifting the rhetorical veil cast over the scene by the *Wealth of Nations*. We now can see that Steuart and Smith belonged to the same world, that their disagreements only made sense in this world, and that they even agreed on monetary questions which, according to tradition, were precisely the issues of the scientific revolution achieved by the classics.

In the first part of this chapter, we will show that Steuart and Smith deal with the same subject, namely the effects of banking on growth. Steuart attributes the concurrence of the development of banks and of the growth to the ‘Vibrations of the balance of wealth’ allowed by the increase in money supply. Smith explains it by the change in the structure of the money supply through the substitution of bank money for gold. In the second part, we shall show that this opposition between volume effect and structure effect does not prevent our two authors from drawing similar conclusions. Both

consider the same systems of payment as viable, whether or not based on metal. Both recommend state intervention to improve the emerging banking system in Great Britain. And in particular, both maintain that the State has to regulate the interest rate.

The effect of banks on enrichment

Steuart and Smith define wealth using an accounting approach. The wealth of an agent is the difference between the amount of his assets and the amount of his debts. The wealth of an agent is, to paraphrase Smith, his power of command over his assets, whether real or financial (see Table 13.1). Since debts are estimated at their nominal value, the wealth of an agent depends on the evaluation of his assets.

For Steuart, ‘capital’ is synonymous with ‘assets’. The value of an asset, whether financial or real, whether produced or not, as, for instance, land, is equal to the discounted value of future revenues derived from that asset. Steuart very clearly states this in his analysis of Law’s system: *‘a permanent and well secured fund of interest is always equal in value to a corresponding capital’* (Steuart [1767] 1967:3 371). This manner of evaluating assets appears quite modern and thus quite relevant at first sight. However, Steuart does not properly account for the difference between real and financial assets, and even sometimes disregards it altogether. This is particularly clear in his discussion of land banks. Steuart seems to imply that instead of consisting of financial assets and claims on landowners, the assets of these banks are the lands themselves: *‘because I consider the securities given them for their paper, to be the same as the property itself’* (Steuart [1767] 1967:3 218). Yet this difference is essential to the central concern of Steuart’s work, namely the relationship between the financial structure of an economy and its total wealth. First, the value of a financial asset and the value of a real asset given as a security have no reason to be equal. For example, in the case of land banks, the value of the lands and that of the claims guaranteed by these lands are determined on different markets. And second, the overall wealth of an economy is necessarily equal to the amount of its real assets alone, since it is obtained by consolidating all the agents, that is by cancelling all their financial assets and all their liabilities, since the financial asset of one is the liability of another.

Table 13.1

<i>Assets</i>	<i>Liabilities</i>
Real assets	Wealth
Financial assets	

For Smith, the term ‘capital’ denotes some kind of real assets. Smith clearly distinguishes between financial assets and real assets. The real assets may be non-produced, like land, or produced. The produced real assets form the ‘stock’ of an agent (Smith [1776] 1976: Book II, chap. 1). Then Smith subdivides the stock into two parts. One is a consumption fund, consisting of real produced assets which the agent reserves for his consumption. The other is capital, consisting of real produced assets which the agent uses to get revenue (Smith [1776] 1976:279).

The value of a consumption fund or of capital is equal to the sum of the values of the commodities composing it, that is, to the sum of their prices as fixed on the market according to the law of supply and demand. So it does not directly depend on the interest rate. On the other hand, the value of lands or of financial assets corresponds, as with Steuart, to the sum of the discounted future returns, so that this value varies in inverse ratio to the interest rate (Smith [1776] 1976:358).

Moreover, Smith distinguishes between the fixed and the circulating parts of an agent’s capital. So he proves that he has a better comprehension than Steuart of the micro-macro problem and of the way money interferes in it. For an individual, coins are an element of his circulating capital. But for society as a whole, where all agents are consolidated, coins are like fixed capital, since they never leave the coffer of an agent without flowing into that of another (Smith [1776] 1976:288). Thus coins can be compared with a machine, with a ‘great wheel’, which is a costly investment and a drain on the net revenue because of the maintenance it requires (Smith [1776] 1976:289).

Paper money is also an element of the individual’s circulating capital. But when all the merchants are consolidated, this money appears to be of the nature of a fixed capital, for the same reasons as those mentioned above concerning coins. At this stage of consolidation, paper money can also be compared with a great wheel. And, when all the merchants and banks are consolidated, this money purely and simply disappears, as do the claims of the banks on the merchants. At this later stage, paper money appears like a great wheel that necessitates no investment.

On the whole, Smith has a more precise accounting approach than Steuart. First of all, Smith perfectly sees that the total wealth of society, resulting from the consolidation of all the agents, is mathematically equal to the sum of society’s real assets. He further understands that financial links established by lending operations, with or without the creation of bank money, do not affect the agents’ power of command over these assets, so that they do not modify the amount of wealth of each agent, but only its nature (Smith [1776] 1976: Book II, chap. 4).

However, both Steuart and Smith measure the enrichment of society by the increase in real assets. Land being non-produced, only the real assets produced by the industrious—farmers or manufacturers—can form the material of such an increase. For Smith, all produced goods which are not consumed are saved,

and thus contribute directly to augment real assets. But for Steuart, the goods after being worked up must get a value to enter the industrious's accounts as true assets. For that, all or part of the goods must be sold. Only after this valuing is performed there may be savings that add to the wealth of society. This is what Steuart expounds in his thesis about the Vibrations of the balance of wealth' (Steuart [1767] 1967: Book II, chap. 26), thesis at the basis of his explanation of the effects of the development of banks on wealth.

Steuart's thesis on the Vibrations of the balance of wealth' starts with the identification of two types of exchange: 1) those by which agents exchange two assets, usually a non-monetary one against money—such operations neither enrich nor impoverish either of the two agents; and 2) those by which agents exchange consumer goods or services against assets, usually money—such operations lead to the relative enrichment of one agent compared to the other. The one who obtains money gets neither richer nor poorer, while the one who acquires the consumer goods or services becomes poorer. Before the exchange, the latter had an asset. After the exchange, he possesses no equivalent asset, since the goods or services have been consumed. This relative enrichment is the motive for industry: *'Here then is the spur to industry; to wit the acquisition of this balance'* (Steuart [1767] 1967:237).

Let us examine Steuart's thesis more closely. Let us consider a first operation by which landlords buy consumer goods with the gold they received for hiring their lands. Just after the production and the payment of rents, the balance sheets of the landlords and those of the industrious are as shown in Table 13.2.

Production has enriched the industrious, but it is only a potential enrichment which has to be valued. The purchase of consumer goods by landlords from the industrious changes the accounts as shown in Table 13.3.

Tables 13.2 and 13.3

<i>Landlords</i>		<i>Industrious</i>	
<i>Assets</i>	<i>Liabilities</i>	<i>Assets</i>	<i>Liabilities</i>
Land	Wealth	Real assets	Wealth
		Δ Real assets potential (production)	Δ Wealth
Gold	Δ Wealth		

<i>Landlords</i>		<i>Industrious</i>	
<i>Assets</i>	<i>Liabilities</i>	<i>Assets</i>	<i>Liabilities</i>
Land	Wealth	Real assets	Wealth
		Gold	Δ Wealth

The industrious have grown neither poorer nor richer, since gold has replaced the goods that formed part of their real assets. The landlords have grown poorer: their real assets are reduced by the amount of gold they possessed before. On the whole, therefore, this operation has impoverished society. But it has also led to a relative enrichment of the industrious compared to the landlords. It has produced a Vibration in the balance of wealth', by which the industrious have partly realized their potential enrichment.

Now, let us imagine a second operation. The landlords want to spend more than their revenue. The only thing they can give immediately is their land. But the industrious do not want to be paid with that kind of asset (Steuart [1767] 1967:2 39). They want money. Let us then suppose that a land bank exists which lends paper money to the landlords (see Table 13.4).

With the paper money drawn from the land bank, the landlords buy consumer goods from the industrious (see Table 13.5)

The landlords have again become poorer, since their wealth has diminished by the amount of the debt they contracted with the land bank. The industrious have become neither richer nor poorer. Their power of command over the real assets of society as a whole has not changed. But instead of exercising it directly on their own assets, they exercise it now on the real assets of the landlords through a financial relationship mediated by the bank. So here too

Table 13.4

<i>Landlords</i>		<i>Land bank</i>		<i>Industrious</i>	
Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Land	Wealth	Claims	Notes	Real assets	Wealth
Notes	Debts			Gold	Δ Wealth

Table 13.5

<i>Landlords</i>		<i>Land bank</i>		<i>Industrious</i>	
Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Land	Wealth	Claims	Notes	Real assets	Wealth
				Gold	Δ Wealth
				Notes	

there is a relative enrichment of the industrious in comparison with the landlords, that is a Vibration of the balance of wealth'.¹

There is a paradox in the two operations considered. The wealth of society is lower after the first operation than it was before, and still lower after the second operation, since the consumption of the landlords has been increasing. However, the vibration of the balance of wealth is positive after the first operation, and even greater after the second. This seems to contradict the idea that the greater the vibration, the greater the enrichment. But the relationship between the vibration and the enrichment of society does not hold synchronically. It holds diachronically between the vibrations of a period and the potential enrichment of the following period.

Diachronically, there nevertheless remains a tension. The enrichment of society during a particular period is equal to the difference between the potential enrichment and consumption during that time. And the potential enrichment of a period is determined by the vibration of the preceding one, while the consumption of a period measures its vibration. Therefore the enrichment of a period depends positively on the vibration of the preceding period, and negatively on the vibration of the present one. Its amount will increase if the incentive caused by the vibration of the preceding period is sufficiently strong and if the vibration of the present period is not too great. In short, the vibration of the balance of wealth at a given period has to be, at the same time, not too large for the present and large enough for the future. This tension is the core of the explanation of cycles, which we discuss in the second part of this chapter.

The idea of vibration of the balance of wealth is also interesting because of the behaviour it attributes to the industrious. The industrious do not aim at increasing their power of command over their own assets, which they could do by producing goods, stocking them, and saving them, as Smith believes. Instead, they aim at increasing their power of command on the real assets of others. It is by pursuing this relative aim, that the industrious would unintentionally attain an absolute aim, that of enriching society.

For Stuart, money, whether gold or paper, has an effect on industry through vibration of the balance of wealth. The greater the money supply, the stronger and more frequent the vibration, and consequently the greater the enrichment of society. If the money supply is bound to gold, the vibrations are limited, and so is the development of industry. As soon as paper money is introduced, the number of vibrations may be higher, making new transfers of power of command possible, in particular on lands that may stimulate industry. *'Those nations, therefore, who circulate their metals only, confine industry to the proportion of the mass of them.'* (Stuart [1767] 1967:2 41).

Smith does not agree with Stuart's theory of the Vibration of the balance of wealth'. He thinks that growth only results from a continuous increase of the non-monetary portion of capital (Smith [1776] 1976:295-6). To explain how the non-monetary portion of capital is affected by the development of

banks, Smith introduces another subdivision of capital. He distinguishes the productive part of capital from its unproductive part, which he calls ‘dead stock’. Gold money is ‘dead stock’ (Smith [1776] 1976:320). Yet to obtain it, it has either to be produced by using productive capital, or exchanged against goods that might be used productively. Moreover, it needs maintenance, since the quantity of gold used as money wears out through circulation. Gold money is an immobilization of capital and its maintenance puts a strain on the net revenue. Bank money, on the other hand, does not form part of the society’s stock and using it is nearly cost-free (in any case, cheaper than using a ‘great wheel’ made of gold). Thus the substitution of paper money for gold money first of all releases a portion of capital which can be used productively;² and second, it increases the net revenue, that is the source of all savings, of all accumulation of capital.

The process of substituting paper for gold runs as follows. Let us suppose that bank credits are granted and that the agents seek to maintain a constant ratio between the monetary and the non-monetary portions of their capital. The new bank money adds to the money in circulation, and swells the cash of the agents. They then find that the ratio between the monetary and non-monetary portions of their capital rises. They react by demanding more commodities. When the prices of national commodities rise too high, they start buying abroad. To pay for the imports, gold money is exported, so that the money supply diminishes and national prices gradually go back to their initial level. But if all or a part of the imports are not consumed, then the productive capital of the agents increases (Smith [1776] 1976:295). That is the way ‘dead stock’ consisting of gold money is transformed into productive capital (Rosier 1994). And this is how Smith accounts for the positive effects of the development of banks on growth; effects that he discovered in Great Britain and in the British colonies of North America (Rosier 1996).

Concerning this explanation, three points ought to be emphasized. First, the creation of bank money has certainly contributed to raising the level of activity. However, this effect is not due to an increase in the money supply, since bank money replaces gold money. Nor is it due to an increase in capital. It is due to a change in its structure: ‘dead stock’ of a certain amount is turned into a productive capital of the same amount:

It is not by augmenting the capital of the country, but by rendering a greater part of that capital more active and productive than would otherwise be so, that the most judicious operations of banking can increase the industries of the country.

(Smith [1776] 1976:320)

Second, the description of the process of substitution begins with the creation of bank money that causes a deficit in the balance of trade and an outflow of gold. But this process could work in reverse: a deficit and outflow of gold

causes a void which is filled by bank money. And third, this process works during a specific phase of the history of societies (Laidler 1981). This phase starts with the emergence of banks, and finishes when the gold money has gone out of the country's circulation.

Steuart does not think that the creation of paper money automatically drives gold money out of circulation. However, he describes mechanisms involving foreign trade by which paper money could replace gold money. His description mentions two proportions that are different from those considered by Smith. First, paper money and gold money in circulation maintain a certain proportion, fixed by the habits and customs of the country (Steuart [1767] 1967:3 215). Second, in most countries, tradition compels the banks to convert paper money into gold. This unnecessary rule (Steuart [1767] 1967:320–1) forces them to keep a portion of their assets in gold money (Steuart [1767] 1967:3 234).

When the balance of trade is negative, gold goes out of the country, gold being the only world money (Steuart [1767] 1967:3 216). The quantity of gold money in circulation then decreases. This lowers the ratio of gold money to paper money in circulation below its customary level. The agents then react by asking the banks to convert their banknotes into gold money (Steuart [1767] 1967:3 234). When the proportion of the banks' gold reserves falls below the required ratio, the banks have to make up for it by borrowing from abroad. There they contract debts. In the balance sheets of the banks, those debts face claims held on internal agents, so that such foreign borrowing results in the transfer abroad of part of the power of command on real assets detained by internal agents.

Upon the whole, we may conclude that nations who owe a balance to other nations, must pay it either with their coin, or with their solid property;...but when coin is not to be procured, the transmission of the solid property to foreign creditors is an operation which banks must undertake.

(Steuart [1767] 1967:3 220)

Under these circumstances, the supply of money no longer satisfies the needs of trade, 'the ready-money demands', and this tends to curb economic activity. Steuart then recommends that the banks lend and pour into circulation a greater quantity of paper money in order to deal with the need for the means of payment (Steuart [1767] 1967:3 324). The banks should do so not only to prevent the country from suffering a foreign trade deficit, but also to serve their own interest. For the banks derive their revenue from the loans they grant. If they reduce the supply of paper money, that is if they reduce their loans, they deprive themselves of the only source of revenue with which they could pay the interests on the loans they contract abroad. Unfortunately, the banks neither see where their own interests lie, because of inter-bank

competition, nor grasp in what the good of the nation consists. Only the statesman is able to do this (Steuart [1767] 1967:3 266).

To sum up, Steuart thinks that the rule of conversion means that in the last resort the banks have to bear the entire deficit of the balance of trade. The whole question is how they are to bear it. If they behave without proper judgement, the money supply will diminish. If they behave as Steuart proposes, the money supply will remain the same, since the creation of bank money will counteract the outflow of gold.³ In this case, bank money is an exact substitute for gold money.

Steuart and Smith have two different conceptions of this substitution of bank money for gold money. However, they do agree about the benefits of the banking systems that are developing under their very eyes. As a result, their differences appear secondary compared to the main conflict of their time: on one side are the enemies of banks, such as Hume, for whom bank money can only mean trouble; and on the other are the banks' supporters, for whom the enrichment of society the banks bring about largely compensates for the potential crises, which, though, of course, always possible, may be avoided by good management and suitable regulation.

The need for banking regulations

Steuart thinks that the general use of bank money can weaken the economic structure and make it less stable. He states: 'The best method to establish credit in an industrious nation, is a bank properly regulated; and the best methods to ruin it effectually, when established, are the inconsistent operations of such a bank' (Steuart [1767] 1967:3 284).

Similarly, Smith compares paper money with the wings of Daedalus, which can only be used by hands that are as expert as those of that ingenious craftsman. Thus both of them propose that banking activity should be regulated. Neither Steuart nor Smith are concerned with describing any ideal systems, but they want to show how the banking systems existing in their time could be improved. So both recommend regulations for banking activities to avoid systemic risks and the consequences of asymmetric information. They think that the State should control interest rates, and both are of the opinion that legislator should take care that they do not rise too high. But Steuart further expresses the opinion that the Statesman should also prevent interest rates from falling too low.

The interest rate is the price of money (Steuart [1767] 1967:3 155). Like the price of any other commodity, it fluctuates in accordance with supply and demand. Steuart explains the way in which the mechanism of competition is meant to govern interest rates. Borrowers try to obtain money at the lowest price, and lenders want to supply it at the highest price. When there is an excess of demand, there will be competition among the borrowers, and when

there is an excess of supply, there will be competition among the lenders (Steuart [1767] 1967:3 154–5).

As far as demand is concerned, there are two kinds of borrowers: those who borrow in order to make profits and those who borrow to ‘dissipate’. Without the ‘spendthrifts’, the interest rate would nearly always be equal to the rate of profit, since the other kind of borrowers would have no reason to borrow at a rate exceeding their gains (Steuart [1767] 1967:3 158). The danger posed by the ‘spendthrifts’ is that they tend to raise interest rates, oust other borrowers and thereby discourage industry (Steuart [1767] 1967:3 159). They thus tend to raise the demand for consumer goods and discourage their production in the country.⁴ This results in a foreign trade deficit caused by imports and a gold drain (Steuart [1767] 1967:3 162). As for supply, if the interest rate seems too low to lenders, the danger is a tendency towards stagnation and hoarding (Steuart [1767] 1967:3 158). And hoarding has the same effect as gold outflow. They both prevent the ‘vibrations’ from taking place.

It is through the mechanism set in motion by the two tendencies of ‘dissipation’ and ‘stagnation’ that the interest rate is naturally determined (Steuart [1767] 1967: Book IV, chap. 4). This mechanism involves three variables: the interest rate, the price of land and the level of demand for monetary loans. We shall discuss how the mechanism works first by considering the tendency towards too much ‘dissipation’. When the demand for borrowing is higher than the supply of loans, interest rates rise above profit rates, so that the industrious no longer borrow. But there is a limit to the rise of interest rates. It goes hand in hand with a fall in the price of land, since the value of an asset is equal to the discounted value of the revenue it will yield. This fall makes it more difficult for landlords to get access to loans and even leads them to bankruptcy. They have to sell their lands to meet their commitments. The ‘frugal’ people and ‘monied men’ can then acquire their lands. In the end, all depends on the behaviour of the lenders, who have the choice between hoarding money, making loans or buying land.⁵ Competition on the land market will then result in a tendency for land prices to rise, which will also mean that interest rates will follow a downward trend:

thus by raising the value of lands, the monied men, with their own hands, defeat the consequences of the dissipation of spendthrifts, and hurt their own interest, to wit, the rise of the price of money. From a combination of these circumstances, lenders become obliged to part with their money at that rate of interest which is the most consistent with the good of commerce.

(Steuart [1767] 1967:3 159–60)

Three remarks need to be made about this mechanism. First, it is a regulating mechanism depending on the land market. Second, the relationship between the price of land and the interest rate works in opposite directions in each of the two phases of the mechanism regulating the interest rate, as explained in connection with the tendency towards 'dissipation'. In fact, during the first phase when the land market is in disequilibrium, it is the rise in the interest rate that causes the fall in land prices. During the second phase, when equilibrium is restored, it is the rise in the price of land which causes a fall in interest rates (Steuart [1767] 1967:3 159–60). Third, in explaining this mechanism, Steuart does not take into account the attitude of the banks when faced with the depreciation of their assets as a result of the fall in the price of those lands which formed the securities against which they granted loans. Logically they should lend less, that is cause interest rates to rise and thus intensify the fall in the price of land. This counteracts the self-regulating aspect of the mechanism suggested by Steuart.

While this mechanism is working, the economy might pass through catastrophic phases of high and low interest rates, which have to be avoided (Steuart [1767] 1967:3 163). So the statesman will have to watch that the interest rate stays within limits. A good policy consists of alternately curbing the passions of those who are ready to borrow at any price, and preventing hoarding when the interest rate drops too low (Steuart [1767] 1967:3 161). The statesman can achieve this through the prudent management (Steuart [1767] 1967:3 172) of other economic variables, such as the supply of paper money or the promulgation of certain banking regulations.

On the one hand, a situation must not be allowed to occur in which the demand for loans by 'spendthrifts' will raise interest rates to a point which the 'industrious' cannot afford (Steuart [1767] 1967:3 167, 174). The consumption of landowners, who form the majority of the 'spendthrifts', is necessary for the enrichment of society, but the productive activity of the 'industrious' nevertheless constitutes the basis of this enrichment (Steuart [1767] 1967:3 166–7). Land banks, which issue loans to landowners against mortgages, serve this objective. They satisfy the landowners' appetites under conditions that are beneficial to society as a whole (Steuart [1767] 1967:3 177). However, they cannot completely channel their passion, so that the legislator must take other measures (Steuart [1767] 1967:3 177–8).

On the other hand, the interest rate will have to be high enough to encourage lending at interest in order to absorb any excess of money (regorging or stagnating paper, Steuart [1767] 1967:3 147–8). Otherwise paper money is returned to the banks to be converted into specie, then either locked into coffers, as was usually the case in the past, or sent abroad to yield a return. To avoid the consequences of a decrease in the money supply, which would be the result of one or the other of these possibilities, the State could float a long-term loan at an attractive rate for the owners of this

excess money and raise a tax enabling it to pay the interests on this loan (Steuart [1767] 1967:3 148–50).

Steuart criticizes Child who wanted the interest rate to be as low as possible and thought that it could be fixed quite arbitrarily (Steuart [1767] 1967: Book IV, chaps 5 and 6). An arbitrarily fixed interest rate that was much too low would have at least two harmful effects. First of all, the gold coins circulating in the country would be sent abroad, because the movement of international capital is subject to differentials in interest rates. All the creditors of banks would then try to recover their money, and there would be ‘runs’ on the banks (Steuart [1767] 1967:3 170–1). Second, the price of land would soar. And third, creditors would quickly demand repayment of their loans to landowners so as to make up for their loss in interest, and would then try to buy assets. These different factors would prompt the landowners to sell huge parts of their land, either to face their commitments or to make profits. They would then have less need to borrow. With this falling demand for loans, the interest rates would drop even lower (Steuart [1767] 1967:3 165, 169).

Smith does not go into the determination of interest rates as extensively as Steuart does (Diatkine 1995). In Book II, Chapter 4 of the *Wealth of Nations*, he merely shows, on the one hand, that the loan at interest, which is normally contracted in money, ends up transferring the use of non-monetary capital; and on the other hand, that the changes in interest rates follow those of the profit rate, which depends on the quantity of the capital (Smith [1776] 1976: Book II, chap. 4). This chapter also contains a criticism of the theories of Locke, Law and Montesquieu who maintain that the money supply determines the interest rate. There is also a comment about the price of land, which seems unimportant and out of place here. However, Smith undeniably echoes Steuart’s theory. Like the latter, Smith sees a relationship between interest rates and land prices.

In the same chapter, Smith also recommends the regulation of interest rates. The law should fix the maximum interest rate. This should be a little above the lowest market rate, that is above the ‘price which is commonly paid for the use of money by those who can give the most undoubted security’ (Smith [1776] 1976:356). If it were established below this level, the effects would be the same as a complete prohibition of interest: ‘the debtor being obliged to pay, not only for the use of the money...he is obliged, if one may say so, to insure his creditor from the penalties of usury’ (Smith [1776] 1976:356). If it were fixed exactly at this level, the borrowers, who cannot furnish the best securities, would be unable to find funds. But the legal rate must not be fixed too much above the current rate either. Too high a rate would result in an adverse selection of borrowers (West 1990). It would attract the ‘prodigals and projectors, who alone would be willing to give this high interest’ (Smith [1776] 1976:357). This would end up in misallocation or waste of capital, which would put a check on accumulation.

Steuart and Smith also agree on other measures. They both condemn the optional clause practised by Scottish banks. This clause allowed a bank to delay the repayment in gold for its notes at its own discretion. When there was a demand for conversion, it could either pay immediately, or six months later by paying the interests due for that period (Smith [1776] 1976:325). Through this clause, the banks limited the repayment of their paper money and tried to protect themselves against 'runs'. However, the two economists' reasons for condemning this clause are somewhat different. Steuart thinks that it should be prohibited because it gives the bank an advantage to the detriment of the bearer (Steuart [1767] 1967:3 263–4), and especially because it expresses an unreasonable worry on the part of the banks about their cash resources, since they can borrow the gold they need from abroad (Steuart [1767] 1967:3 265). According to Smith, the option clause is harmful because it would make the value of paper money drop below that of metallic money and cause exchange rates to drop below par (Smith [1776] 1976:323).

Steuart and Smith also share the idea that a seignorage should be imposed on coinage. According to both authors, this would lead partly to avoiding problems due to the deterioration of coins (Steuart [1767] 1967:3 308–9; Smith [1776] 1976:553). Steuart even proposes that this seignorage might be charged by the banks themselves, if the State would grant them the right to have mints, so that they could more easily satisfy their need for coins with the gold they acquire from abroad. This concession would have the advantage of preventing the activity of 'money-jobbers' (Steuart [1767] 1967:3 269–70).

Neither Steuart nor Smith challenge the rule of the convertibility of notes into gold, although both believe that this rule is by no means necessary to the functioning of a banking system. However, this rule is less important to Steuart than it is to Smith. For the former, it is nothing more than respecting a custom: 'custom has established it, and with custom even statesmen must comply' (Steuart [1767] 1967:3 226). To Smith, this rule forms the basis of a principle of good management which is likely to lend the system greater stability.

Smith also proposes that banknotes for less than £5 should be prohibited, so that the circulation of notes be restricted to operations between merchants, and a certain quantity of gold be kept in circulation for the exchange between consumers and merchants (Smith [1776] 1976:323).⁶ He compares this prohibition with the introduction of 'party walls', which would prevent a crisis from spreading to all the banks and all the agents, especially 'poor people' (Smith [1776] 1976:323). The idea of 'party walls' as necessary exceptions to the principle of freedom of trade⁷ shows that Smith is aware of the systemic risk. But there can only be a systemic risk if banking performance is unable to absorb macroeconomic shocks. Thus the description of these exceptions is preceded by a denunciation of the

carelessness of certain banks, and by pointing out asymmetric information in the credit market.

Smith thus recommends a principle of good management for the banks, consisting of short-term loans. By keeping track of the level of their reserves and the regularity of repayments by their debtors, they could check if this principle is respected (Smith [1776] 1976:304).⁸ This would ensure that they are not dealing with 'projectors' who borrow the whole of their capital, but with prudent merchants who raise funds only to finance their transactions. But an examination of the regularity of their repayments by looking into the debtors' accounts may reveal false information about their quality (Smith [1776] 1976:305). It does not lead to detecting cheaters. By drawing and redrawing bills of exchange, they can raise long-term funds. 'Speculators' and 'projectors', in particular, can borrow their entire capital without the banks becoming aware of it in time (Smith [1776] 1976:316).

In this analysis of the limits of the principle of good management, Smith exclusively considers asymmetric information on the assets side of the banks, showing the relationship between banks and borrowers. Steuart is also aware of such asymmetric information. However, he thinks that on the assets side the problems are surmountable thanks to the specific knowledge acquired by the banks when following the operations of their clients (Steuart [1767] 1967:3 305). He stresses the liability side of the banks, showing the relationship between banks and depositors. The latter could not know the value of the banks' assets, that is the value of the securities which guarantee their issue. They may have their doubts to the point of demanding the repayment of their notes, even if there is no reason for it. And this demand could be the origin of panics resembling those described in contemporary banking theory (Steuart [1767] 1967:3 280). Steuart is therefore as clearly aware as Smith of the systemic risk.⁹ But because of the information asymmetries which draw his attention, he seeks to reduce it in quite a different way. He proposes an inspection of the banks' accounting books to be organized by the State in order to reassure the depositors (Steuart [1767] 1967:3 279). 'It is the right of every man to detect false coin: but it is the right of government only to detect doubtful paper: because law only can authorize such an inquisition' (Steuart [1767] 1967:3 281).

It is through the types of asymmetric information considered by Steuart and Smith that we can understand their respective positions as regards competition and the organization of banking systems. For Steuart, the 'moral hazard' resides with the banks and the risk in question is run by the depositors. This risk is, of course, limited when there is a single bank, which is easier to control and allows for more mutualism. For Smith the 'moral hazard' concerns the borrowers, and the risk is run by the banks. This risk is not connected with the number of banks, because it depends on the quality of the borrowers.

In the Great Britain of his period, Steuart distinguishes between national

banks and subaltern banks of circulation, with the former refinancing the latter. And he thinks that there should be a single national bank with branches all over the country (Steuart [1767] 1967:3 275–8). Steuart thinks that competition between subaltern banks can only have harmful effects. First of all, since each would try to exclude the banknotes of the others, they would all have to keep a greater quantity of cash than would otherwise be necessary, thus sustaining unnecessary expenses (Steuart [1767] 1967:3 273–4). Second, they would all tend to limit their issue of paper money, which would prevent drawing all the advantages from the more numerous vibrations of the balance of wealth. And third, their competition could at any time degenerate into a general crisis (Steuart [1767] 1967:3 274).

As for Smith, he prefers the existence of many banks (Gherity 1994). First of all, this would force each bank to be careful with regard to the threat represented by ‘runs’ organized by its rivals. This threat would make each bank apply the rule of good management, which would mean that in principle, the banks on the whole would not issue more banknotes than needed for circulation. And second, a bank is always liable to go bankrupt (Smith [1776] 1976:302) (‘an incident which, in the course of things, must sometimes happen’). The impact of such bankruptcies on the public would be all the weaker the more numerous the banks, and the smaller the area in which their banknotes circulate. At the end of the chapter devoted to banks in the *Wealth of Nations*, Smith says that a system of multiple banks is a good system, provided, of course, that it is regulated, which means no banknotes for less than £5, no option clause, and setting a maximum interest rate (Smith [1776] 1976:329).

Conclusion

Both Steuart and Smith ascribe a crucial and beneficial role to the development of banks in economic growth. According to Steuart, the increase in money supply due to bank money would lead to ‘Vibrations of the balance of wealth’ which would not have occurred without them. These vibrations would bring about an overall enrichment of society because they stimulate the production of the ‘industrious’. According to Smith, bank money does not increase circulation, but substitutes paper money for gold coins. And this substitution leads to enrichment, since it transforms ‘dead stock’ into productive capital.

Aside from their disagreement about the advantages and inconveniences of a multiplicity of banks, Steuart and Smith agree on the idea that banking systems are ‘Daedalus wings’. Indeed, both believe that growth could be thwarted by deviant behaviour, and that banking systems could amplify such consequences. So both conclude that any banking system should involve State intervention, especially with regard to the regulation of interest rates.

For Steuart, the ‘monied men’ might profit from the tendency of landowners to dissipate, that is their tendency to borrow at any interest

rate; or they might hoard when interest rates are too low. So the Statesman has to intervene to limit both the rise and the fall of the interest rate.

For Smith, the deviants are the ‘projectors’. They are merchants, but merchants who, like Steuart’s ‘spendthrifts’, are willing to borrow at any interest rate. They thus tend to oust the ‘prudent’ merchants from the credit market. The fixing of a maximum interest rate assures that society’s capital will not be destroyed by the illusory operations of the former, and that it will remain in the hands of the latter.

Notes

- 1 At the end of this second phase, part of the potential enrichment of the industrious has not been sold. But this part has nevertheless got a value. Steuart is not very explicit on this point. However, it can be assumed that the part which is not sold but priced corresponds with the building up of stocks or with immobilizations that have become necessary to meet an increasing demand.
- 2 Smith thus compares circulating gold and silver with a highway which is necessary but sterile; paper money which replaces them transforms the circulation of money into a ‘waggon-way through the air’, thus liberating the space previously occupied by the highway, so that it can be cultivated (Smith [1776] 1976:320–1).
- 3 In fact, the substitution implies a reduction in the proportion between gold money and bank money in circulation, hence a modification in the customary habits of agents.
- 4 Here we again come across the tension that appeared previously in connection with the ‘vibrations in the balance of wealth’. The consumption of landowners must not be too high for the present and high enough for the future.
- 5 According to Low (1954:51) the distribution of assets among the different categories depends on their respective returns, which have to level out.
- 6 Steuart also thinks that gold was necessary for small operations, but he never makes a rule of this necessity (Steuart [1767] 1967:3 175).
- 7

But those exertions of the natural liberty of a few individuals, which might endanger the security of the whole society, are, and ought to be, restrained by the laws of all governments; of the most free, as well as of the most despotical.

(Smith [1776] 1976:324)

- 8 This rule of good management has been considered as the first formulation by Smith of what was later to be called, after him, the ‘real bills doctrine’; the real bills being secured by existing commodities that can be paid by consumers. Without going further into this question, we point out that this formulation by Smith is very different from the later versions. Here the problem consists of securing the microeconomic equilibrium of the bank’s liquidity and the capital allowance. On this point, see Perlman (1989).
- 9 because were one bank to break, either through the knavery, misconduct, or misfortune, of a particular company, this would cast a general discredit

upon all paper money, and be the means of bringing on those calamities which we have so often mentioned.

(Steuart [1767] 1967:3 279)

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RATE OF INTEREST, PROFIT AND PRICES IN THE ECONOMICS OF JAMES STEUART¹

Ramón Tortajada

In an earlier study of Steuart's theory of prices (Tortajada 1993), we highlighted three general characteristics of his thought. First, prices are not determined on the basis of a profit rate, but on that of a mark up; second, the *statesman* is deemed indispensable to ensuring the coherence of a market society; third, his line of argument revolves essentially around monetary matters. The question of the determination of the interest rate of money was left unanswered. This is the purpose of this paper.

In the first section, we will present the fundamental characteristic of Steuart's conception of money. Steuart considers that money is firstly a money of account. Concerning the determination of the rate of interest this implies a set of consequences. We will present them in our second section. Faithful to his own logic which places the market at the top as the determinant of economic quantities, Steuart determines the rate of interest of money in terms of supply and demand of money. The State, the statesman, must regulate the interest rate. On this topic, we notice a peculiar convergence between the two authors who symbolize the two main currents of political economy: the 'free market Smith' and the 'interventionist Steuart'. And this will be our conclusion.

Economic theory, the State and money

One of the lessons learned when reading Steuart's *Principles* is that a market society in which individuals merely act in their own interest must basically be a state-controlled society. The presence of the State is required to ensure the economic and social coherence of commercial relations. This State is not a planner and does not determine prices, or the quantities exchanged; there is neither a *commissaire priseur* nor a Minister of Plan. The State guarantees the functioning of the market by ensuring the existence of competition. Of

course, all economists acknowledge the existence and the necessity of the State but the majority of them consider it legitimate and conceivable to account for the rational core of a market society by a priori ruling out any state intervention in economic relations. This is evidently the position held by contemporary economists such as Hayek (1973–9). It is also the conception of authors whose views of *economic laws* are in line with the classics. When he is tackling economic questions, the use Marx makes of the words ‘economic laws’ is evidence of such a logic. It is also the position of the now marginalist trend which questions whether the logic of the general equilibrium tends to demonstrate anything but the viability and optimal characteristic of a decentralized society. This approach, which we owe to Smith, is an alternative to Steuart’s way of thinking. So it is hardly surprising that a number of contemporary economic policies or theories that are at odds with Smith’s ideas show a singular affinity with many of Steuart’s proposals. We shall provide some significant examples.

Eltis points out the strange resemblance between the Common Agricultural Policy of the European Union, and Steuart’s proposals of 1759 to maintain *grain* prices within the limits of an acceptable *vibration*: the fixing of minimal prices was to be combined with the practice of stocking grain. According to Eltis, one can also find echoes of Steuart’s analyses in the 1970s proposals of the Cambridge Economic Policy Group for restoring the competitiveness of British industry and thus achieving a more acceptable employment level (Eltis 1986). Sen ends one of the most important chapters of his book on Steuart with the following sentence: ‘We may...suggest here that a comparative study of Steuart’s *Political Economy* and Lerner’s *Economics of Control* is not only highly instructive but also a timely reminder of how little moderns we so called “moderns” really are’ (Sen 1957:154). And finally, we may also quote Chamley (1962, 1963). Comparing the quotations of each of them term by term, as in the work he did with respect to Steuart and Hegel,² Chamley maintains that there are ‘affinities’ in form and content between Steuart and Keynes.

Smith ([1776] 1976: Book II, chap. 2) spun out a long metaphor about ‘the great wheel of circulation’ to define money. J.B.Say carries the metaphor to an extreme by comparing money with ‘carriages’ and thus stressing the absurdity of arguments maintaining that the State has to adopt an active policy with regard to international trade and a balance of payments surplus. Does one accumulate ‘carriages’ as instruments for the circulation of commodities? This brought him some ironical remarks on behalf of Nicolas-François Canard, who, in an article of 1825, in which he explicitly quoted Steuart (spelt Stewart), opposed Say by defending another conception.

By comparing money with a cart, Mr. Say insists on depriving it of its precious quality which is acknowledged the word over; he does not want to realize that money, for the person who owns it, is not

only an instrument of exchange, but that in his hands it is the same thing as the product or commodity he has sold to own it; it is the commodity metamorphosed into money, and in this metamorphosis, it has for him a quality it did not previously have. Before it only had one particular use which did not suit its owner, he was not sure he could sell it, but now that is converted into money, all his cares have ended, it has become of general use in his hands, he can use it as he wishes.

(Canard 1826:48)

The rejection of the monetary approach mixed up with the mercantilist approach forms a convergence point for many economics theories which are often opponents on other points. Because he provides one of the clearest expressions of the basis of the rejection of the ‘mercantilist’ approach, we may quote Wicksell who still thanks the classic for such an analysis:

This conscious abstraction from the functions of money—the conception of trade, external as well as internal, as consisting in the last analysis in the exchange of commodities of capital as real capital of as a sum of money, of wages as real wages—was the decisive step which first gave economics a truly scientific character, and first raised it above the hazy and incoherent ideas of Mercantilism.

(Wicksell [1934] 1961:1 223)

It has often been agreed that Stuart should be ‘classified’ among the ‘mercantilists’. Two main criteria are often used to distinguish the mercantilists from other economists. The first criterion concerns the degree of State intervention in the market. The second concerns the confusion between the wealth of a nation and the quantity of money available. Reading Stuart with a reasonable degree of attention prompts us to exempt him from these criteria.

First, as a criterion for a classification of the economist, ‘free market’ seems to be a very delicate term. For free-marketeers, a free market is the only conceivable policy; for interventionists, such a policy can be implemented or rejected as circumstance or opportunity suggest, without the need for reappraisal of their conceptions. As far as the internal market or international trade are concerned, a free-market policy appears as one policy among the others. Second, Stuart refuses to identify the money a nation possesses with its wealth, especially if the money consists of coins. He says: ‘The wealth of a nation can no more be estimated by the quantity of its coin, than the wealth of private people by the weight of their purse’ (Stuart 1805:3 59).

If you do not promptly discard money from the study of trade relations so as to deal exclusively with real trade, as did most of the economists, you

will be led to several negative conclusions: first, money cannot be treated as a veil drawn over real exchange; second, it does not simply refer to any kind of commodity, it is a determining variable as to the level of production and employment; third, commodity prices do not express an exchange ratio between goods, but relations between purchase and sale, hence monetary relations.

Because they express the necessary consequence of any chosen economic approach, terms such as ‘prices’ and ‘trade relations’ need to be defined. While we are within a monetary framework, we are dealing with purchases and sales. This means exchange of some specific goods (M1, M2, M3,...) against a *general equivalent* money (A) (terms used by Canard 1826). This exchange involves a monetary price. Ever since Aristotle’s reading by the scholastics, the traditional symbolism of it has been A—M. On the other hand, when we exclude money, we are logically led to place ourselves in a pure exchange of goods framework (M1, M2). Economists are in the habit of describing these relations using specific examples: deers against beavers (Smith), corn against oats (Walras), apples against pears (Marshall). In this classical approach, monetary relations are superimposed on real relations, drawn over them like a veil. We can only investigate the reality of the exchange by looking behind the veil. The schema M1—M2 cannot be represented as a reduction of the first schema A—M1—M2—A; this expresses a conception of economic relations that is alternative to a monetary approach.

This difference in schemas specifies merchants’ activities which cannot be separated from money or banking. From the very outset, money within trade relations comes under the general concept of credit.

This operation of buying and selling is a little more complex than the former [reciprocal exchange or barter]; but still we have here no idea of trade, because we have not introduced the merchant, by whose industry it is carried on.

Let this third person be brought into play, and the whole operation becomes clear. What before we called wants, is here represented by the consumer; what we called industry, by the manufacturer; what we called money by the merchant. *The merchant here represents the money, by substituting credit in its place*; and as the money was invented to facilitate barter, so the merchant with his credit, is a new refinement upon the use of money. The merchant, I say, renders money still more effectual in performing the operations of buying and selling;...the merchant represents by turns both the consumer, the manufacturer, and the money. To the consumer he appears as the whole body of manufacturers; and to the one and the other class his credit supplies the use of money.

(Steuart: 327–8, our italics)³

This long quotation gives rise to an affirmation and a question. The affirmation is obvious: we cannot disregard money when studying trade and prices. Steuart's prices are in money and his merchants are consubstantial with money. As for the question, it issues from the above affirmation. How are we to account for money in this context; for its 'price', its interest rate; and how will the calculations of merchants and manufacturers incorporate this interest rate when there is no accounting period and hence neither the concept of profit rate, nor that of capital, in Steuart's construction?

The monetary question takes up the main part of the *Principles*. As early as Book II, the question about the relationship between money and the 'wealth of a nation' is presented; credits and money are presented in Books III and IV. Steuart deals with two aspects of money at length, one being the circulation of wealth, the other its measure. The first is mainly discussed at the end of Book II of the *Principles*, while the second forms the essential subject of Book III. As we use Steuart's terms—coins, credit money, symbolical money and money (as such)—it may be useful to recapitulate these definitions.

By real money, is what we call coin, or a modification of the precious metals, which by general agreement among men, and under the authority of a state, carries along with it its own intrinsic value.

By symbolical money, I understand what is commonly called credit, or an expedient for keeping accounts of debt and credit between parties, expressed in those denominations of money which are realized in the coin. Bank notes, credit in bank, bills, bonds, and merchants' books (where credit is given and taken) are some of the many species of credit included under the term symbolical money.

(Steuart: 314–15)

Whatever its form, wherever its expression, money will be considered as a whole. The entire first part of Book III centres on the affirmation that, fundamentally, money is a measure of values, credits and debts. If money is to act as a measure, it has to possess the qualities of a good measure; that is, it has to be invariable with regard to the object measured. However, as everybody knows, and because they are commodities, metals (gold and silver) have vastly variable prices. They are not a good measure of prices, credits and debts. Two solutions have been proposed to deal with this difficulty. One is Smith's method, the other is Steuart's. The lack of a good measure for the exchange ratio through gold or silver (commodities money) led Smith to adopt a 'real' approach in which labour is substituted for money as a price measure. This text is well known;

work, which never varies in its proper value (unlike gold and silver) is the only real and definitive measure that can serve at all times

and in all places to appreciate and compare the value of all commodities. It is their real price; money is only their nominal price.
(Smith [1776] 1976:102)

The fact that Smith failed in his project to set up a ‘good measure’ is not at issue here (Benetti 1990). The essential question, for us, lies in the very existence of such a project, that is in the affirmation that the study of exchange relations can be approached relevantly in non-monetary terms. Because the lack of a ‘good measure’ is due to the nature of metals as a commodity, Steuart’s approach considers money would have to be divested of its commodity character. According to Steuart, money does not comply with the commercial system.

In order, therefore, to render material money more perfect, this quality of metal, that is of a commodity, should be taken from it; and in order to render paper-money more perfect, it ought to be made to circulate upon metallic or land security. The expedient with regard to the metals shall find a place in this inquiry.... What regards the paper is foreign to our purpose, and belongs to the doctrine of credit.

(Steuart: 420)

Let us continue to follow Steuart: ‘Money of account therefore, is quite a different thing from money-coin, and might exist, although there was no such thing in the world as any substance, which could become an adequate and proportional equivalent for every commodity’ (Steuart: 408).

After a long commentary on the historical role of coined metals (gold and silver), which are both measures of value and means of payment, Steuart concludes: ‘All and every one of these inconveniences to which coin is exposed, disappear in countries where the use of pure ideal money of account is properly established’ (Steuart: 421). The contrast with Smith’s approach could hardly be more obvious: it is possible to conceive of an invariable measure, and this measure is monetary, but money does not belong to the realm of commodities. Price is expressed in species and measured in the unit of ideal money. This, however, raises a whole set of questions. What is the basis for this measure? Is it entirely arbitrary? How are we to admit that a purely ideal money of account is ‘properly’ established? The answer follows later on:

the value of the money-unit of account is not to be sought for in the statutes and regulation of the mint, but in the actual intrinsic value of that currency in which all obligations are acquitted, and all accounts are kept.

(Steuart: 430)

What a strange answer! The value of the money unit of account is determined by the value of the currency. It is hardly surprising, then, that Steuart's intuitions regarding the nature of money and its characteristics (a non-commodity) have fallen into oblivion. If, in discussing money, Steuart so quickly dispatches 'paper', it is because he is fully aware that he could not carry out his inquiry independently from the banking system, and also because he considers the subject of coins and species to be the key question for studying the nature of money. Despite his original intuition, this question has come full circle.

Money, says Steuart, is connected with the movement of business and with the life-style of the inhabitants (frugal or extravagant). These are determining factors for the demand of money. The circulation of a country's wealth can only absorb a certain quantity of money.⁴ Coins are converted to 'silverware' while paper money goes back to the banks. On the other hand, if there is a shortage of money, it has to be created. Steuart proposes resorting to 'symbolical money' (or paper money) in order to encourage consumption and increase the demand for industrial products. Hence the quantity of money necessary for the internal circulation of wealth is composed of coins and paper money.

Let this quantity of coin, necessary for circulating the paper-money, be called (B), and let the paper-money be called (C); consequently (a) [the sum sufficient for satisfying ready-money demands] will be equal to the sum of (B) and (C).

(Steuart: 497)

The statesman has to maintain the right proportion between the means of circulation and demand. According to Steuart, the best way for such an equilibrium is to establish a system of banks that will cope with sporadic demands. Shortage of money will be solved through the creation of paper money; any money surplus will be destroyed when it goes back to the bank.

Banking, in the age we live, is that branch of credit which best deserves the attention of a statesman. Upon the right establishment of banks, depends the prosperity of trade, and the equable course of circulation. By them solid property may be melted down. By the means of banks, money may be constantly kept at a due proportion to alienation. If alienation increases, more property may be melted down. If it diminishes, the quantity of money stagnating will be absorbed by the bank, and part of the property formerly melted down in the securities granted to them, will be, as it were, consolidated anew.

(Steuart: 478)

Supply and demand rule the quantity of money in circulation. They also rule the interest rate of that money. But although the terms, supply and demand, are the same, their meanings are different. When all is said and done, supply and creation of money, in the end, depend on the establishment of a *credits system*. As for interest rates, demand proceeds from individuals.

The price of money

According to Stuart, the price of credit is identical with the price paid to obtain money:

Thus we have brought credit to the object under which we are to consider it, viz the obligation to pay money, either for value received, or for some consideration relative to the parties, which may be the just ground of a contract.

(Steuart: 443)

The question of interest is thus extended from money and credit to include debts and credits as a whole, for ‘credit and debts are...inseparable’ (ibid.). All those who are in a position to contract debts or to grant credits are a party to interest. The importance of credit proceeds from the fact that it forms the basis for all the trade and wealth of the country:

Without good faith there can be no credit; without credit there can be no borrowing of money, no trade, no industry, no circulation, no bread for the lower classes, no luxury, not even the conveniences of life, for the rich.

(Steuart: 451)

We can see why Stuart starts his book concerning credit saying: ‘The rate of interest...is the basis of the whole’ (Steuart: 439).

Steuart rejects the moral aspect, as already announced in the *Principles*’ preface. This does not concern this chapter. The texts are well known and we will not discuss them.⁵ Interest is no longer a moral problem, it has become an economic question.

According to Stuart, the principle that regulates interest rates is the same as the one that regulates the price of commodities, namely demand and competition on the market. In its defence of loans with interest Turgot advanced arguments of the same order as those of Stuart. A system of credit is necessary for the good functioning of trade and industry; the determination of the rate of interest has to be left to the free expression of supply and demand:

Interest is the price of money in trade and this price has to be left to the course of events and to the proceedings of trade. If you adhere to the natural order, money must be regarded as a commodity which the owner has the right to sell or to rent out, and the law must not demand the alienation of capital to authorize the stipulation of interest. Nor is there any reason that it should fix the rate of this interest.

(Turgot [1770] 1970:286)

This was the spirit of the time. However, the difference between Steuart and Turgot becomes greater when we consider their conception of money. To Turgot, it is a commodity, an object of private property. Steuart seeks to work out a system on a par with that regarding the circulation of wealth, where money is only ideal. We hear echoes of it when he discusses fixing the rate of interest. This price is not devoid of certain ‘oddities’ compared to other prices. We shall examine these prices first, before going on to discuss the interaction of competition and demand.

There are many ways in which the price of money differs from other prices. One is explained by Steuart at length, two others are barely mentioned. The first characteristic of the price of money is announced as an established fact: ‘The price of money (which is what we express by the term interest) is susceptible of a far greater stability and uniformity, than the price of any other thing’ (Steuart: 450); this is due to the nature of money and the state of society. According to Steuart, because money is first a unit of account, it ‘is all, or ought to be all’ (ibid.) of the same value in all circumstances. In this it is necessarily more homogeneous than commodities which, ‘though of the same kind, differ in goodness’, and all the more so because commodities ‘are every one calculated for particular use; money serves every purposes’ (ibid.). Being relatively homogeneous both in its uses and in its exchange, it is logical that its price, the rate of interest, should be more uniform than other prices.

This standardization process can be understood on two levels. At the national level, stability and uniformity are achieved when lending and borrowing operations have become common and regular; principles governing the determination of the rate of interest can then be developed. Otherwise, Steuart says, on the one hand, there will be a plurality of ‘prices of money’, since rates would depend on the needs of individuals and the mere goodwill of lenders, without there being any competition; and, on the other hand, ‘it [would be] impossible for a statesman to determine any just rate for interest’ (Steuart: 450). If, however, these operations are common, the rate will be to everybody’s advantage. At the international level, says Steuart, there is a general average as a result of ‘the great loads of national debts, and the extension of credit, through the several nations of Europe, who pay annually large sums of interest to their creditors’ (Steuart: 469). Thus an inequality in

rates sufficient to cover the fees for delivery and/or draft can lead to a mobility of investments. This means that in any given area where there is a mobility of funds one may legitimately suppose an equality in interest rates.

This uniformity and stability of interest rates may suggest that, for Steuart, they may be a sign of the general state of a nation: the lower the rate the richer the nation. This was the position of Hume, who used the term 'barometer'. Steuart vigorously rejects it.⁶ In doing so, he defines what he means by 'interest'. According to Steuart, for the merchant and the manufacturer, interest is fundamentally a cost among others. So it is not so much the rate that is significant as the expense involved and its importance in comparison with other costs. As a result, says Steuart, even if a low interest rate is advantageous for trade, it is not by itself a sign of public prosperity.

At a given time, for a given state of a society, *one* price for money is defined. But if the prices of all commodities are expressed in money, the interest rate, the price of money, refers to no monetary dimension. It is a 'pure number': x per cent, y per cent, etc. But what is the nature of what is supplied and demanded? Once the unit of measure is established, the object of supply and demand is active money. Here we are faced with the question raised in Book III, in which Steuart examines money and declares: 'by shewing the exact difference between price (that is coin) considered as a measure, and price considered as an equivalent for value' (Steuart: 410).

The 'oddity' of putting prices (monetary dimensions) and the interest rate (a pure number) on the same level logically ought to have led Steuart to wonder about another kind of rate: the one resulting from a comparison between advances (in money) and gains (in money), thus pointing the way to a theory of rate of profit. He might then perhaps have connected (or not) this profit rate with the interest rate. All the elements and concepts required for this step are present in the *Principles*. But that was not the path our author followed. Two points are at the root of Steuart's failure to generalize the concept of rates. The first is his lack of the concept of a calculation period (financial year), the other is that he argues both in terms of interest (the quantity of money charged for a loan) and in terms of interest rates. Although the interest rate, a pure number, cannot be confused with a commodity price, this is not true of interest. The latter, like commodity prices, refers to a monetary dimension. This is clearly shown when Steuart challenges the idea of interest being a 'barometer', and thus enters into the structure of merchants' and manufacturers' costs. He says of manufacturers who borrowed money:

Do we see every day, that ingenious workmen, who obtain credit for very small sums, are soon enabled, by the means of their own industry, to produce a surprising value in manufactures, and not only to subsist, but to increase in riches? The interest they pay for the money borrowed is inconsiderable, when compared with the

value, created (as it were) by the proper employment of their time and talents.

(Steuart: 468)

Interest appears as part of the same dimension as the price of food and of tools, and if a ratio is established, it does not refer to advances (or the portion of advances that form the object of a loan), but to the value of production. The calculation is like the one made for gain: for both merchants and manufacturers' gain, it leads to a markup ratio.

This assumption is confirmed by a quotation from Steuart. Steuart considers, in effect, that one could argue in terms of rates, but this seems to him very hypothetical. The interaction between supply and demand appears to him more certain:

Whether merchants do regulate their profits, in all commercial nations, according to the exact proportion of the respective rates of interest, and promptitude of payments among them; or whether these are determined by the circumstances of demand and competition in the several foreign markets where the trade is carried on, I leave to merchants to determine.

(Steuart: 468)

If this analysis is acceptable, it means that Steuart, in his *Principles* compared markups rather than profit and interest rates. The interest rate for money is simply a price index and one of the elements for calculating the interest charge payable by the borrower. The assimilation of the rate of interest for money with a price like that of other commodities must therefore go beyond these 'oddities', and be based only on the procedures at work in the demand and supply.

The determination of the interest rate through 'demand and competition' is not specific to Steuart, it is found in most economic theories. What differentiates it is therefore not so much the procedure as the object. For some, it involves the supply and demand of actual savings; for others, the supply and demand of money. The first group is illustrated by Smith, the second by Steuart.

For Smith, the interest rate is a result of the supply and demand of actual savings. The supply of savings does not refer to the quantity of money held, but to the non-used part of the 'fund'. This 'fund' includes 'amortizations' and non-consumption as such. In contemporary terms the supply of savings corresponds with gross savings (actual savings):

This portion of the product which, coming out of the earth or from the hands of productive workers, is destined not only to replace a

capital, but a capital whose owner does not care to take the trouble to use himself.

(Smith [1776] 1976:1 440–1)⁷

The demand for savings is also an actual demand either for accumulating capital ('to have productive workers subsist') or for consumption (of prodigals, adventurers and 'schemers'). So that 'you can consider capital lent at interest as a delegation made by the lender to the borrower of some portion of the annual product' (Smith [1776] 1976:1 442).

According to Aristotle, two kinds of exchange exist. Some are only concerned about the use value of goods and end themselves as soon as consumers satisfy their needs; others, the chrematistics, lead to the destruction of order in the City because they develop themselves without limit. In the same way, two kinds of demand for loans would exist. The first demand has its own limits: those who borrow to make a profit will limit the price of their loan to the gain they are expecting; the ordinary rate of interest will follow the ordinary rate of profit. The second demand finds its limits only in the desire to consume, and does not indicate any law of variation for the rate of interest. If only the first type of demand for savings existed, there would be no reason to regulate the interest rate, but as there is another, second type of demand, it is necessary to fix a legal interest rate. The State intervenes within the economic system; the hand must be visible as far as the interest rate is concerned. Smith points out the procedure to be followed by the statesman. 'The legal rate (should be) a little above the current rate of the place (but) it should not be too much higher' (Smith [1776] 1976:1 446) for if the legal rate is only 'very little' above the current rate, demands for accumulating capital can be financed. But how is the 'current rate of the place' to be fixed? In accordance with 'the funds available', answers Smith! If that is the case, then what is the use of the 'legal rate' which Smith by no means disapproves of? Smith's approach is strangely similar to Steuart's as regards interest rates. To be properly applied, economic principles need the statesman.

According to Steuart, the price of money is not of the same nature as other prices, but the procedure for fixing all prices is similar. It is a matter of demand and supply:

in all times, there is in every state a certain number of persons who have occasion to borrow money, and a certain number of persons who desire to lend: there is also a certain sum of money demand by the borrowers, and a certain sum offered to be lent. The borrowers desire to fix the interest as low as they can; the lenders seek, from a like principle of self-interest, to carry the rate of it as high as they can.

(Steuart: 449)

A particularity radically distinguishes between the price of money and price of other commodities. According to Steuart, every single commodity possesses two prices: the lowest and the highest price. The spread defines the profit upon alienation. It is not so with the price of money, where a single rate is applied—an average rate resulting from confrontation on the market. No profit upon alienation exists in the structure of that particular price.

The demand for money does not present any logical difficulties, it is a demand for purchasing power depending on the circulating value, ‘no matter whether coin or paper’ (Steuart: 452). This demand comes from two classes of people: those who borrow in order to profit (merchants and manufacturers) and those who borrow to dissipate. ‘The first class never can offer an interest which exceeds the proportion of their gains; the second class, finding nothing but want of credit to limit their expence, become a prey to usurers’ (Steuart: 451).

Here we have a foreshadowing of Smith’s argument, though in monetary terms. This leads to two lines of reasoning. In the first, the interest-rate level depends on the ratio within the population between those who borrow for profit and those who borrow to dissipate.⁸ In other words, the interest will not depend on the rules and laws of a country, but on the ‘people’s lifestyle’. In the second, the demand for commerce is such that, due to its importance, it alone determines the rate of interest: ‘trade alone will absorb the stagnation of the frugal, and the price of interest will fall to that rate which is best proportioned to the profit upon commerce’ (Steuart: 460). This will be an average rate: ‘There must, from such negociations result an average for the value of money, by the operation of credit over the commercial world’ (Steuart: 489). The supply of money has to correspond with the demand for it. The supply of money also has a twofold origin: monetary savings by individuals and creation of money by the banks.

The savings of individuals are their non-used monetary incomes. As a result, a quantity of money equivalent to these savings is diverted from the circulation of wealth, and this cannot happen without causing damage. Loans at interest are thus the condition for a good circulation of existing wealth.

Banks, especially land banks, have the ability to create money by converting, or ‘melting down’, landed property. They thus ensure the regular course of circulation and prosperity of trade, for money is constantly maintained in the right proportion to alienation. Credit, which is needed by merchants and manufacturers, is subject to the hazards of trade, so Steuart suggests that a bridging loan between such banks and merchants be effected by ‘men of substance’ who dispose of ‘real and personnal security’ (Steuart: 483–5).

In any case, competition between the suppliers of money or monied men (*capitalistes*, as Steuart’s French translator calls them), will lead them to accept moderate prices for their money. If they lend to merchants and manufacturers,

the profits of the latter will set a limit. If the interest rate is too high, such as only 'spendthrifts' would be likely to accept, there would be a rejection of loans, followed by a monetary crisis:

were the money lenders to attempt to raise the rate of interest to the standard of the spendthrift, the demands of trade, etc...would soon be cut: the stagnation would then swell so fast in their hands, that it would in a manner choak them, and in a little time interest would fall to nothing.

(Steuart: 453)

From the spendthrifts' side, regulation of the interest rate exists as well. An exaggerated rise of interest

has so much the effect of depreciating the value of every species of solid property, that spendthrifts are quickly stripped of it, by the growing accumulation of that canker worm, interest; their ruin terrifies many from following so hurtful an example.

(Steuart: 452)

If spendthrifts are not diverted from their expenses, their properties will fall into the other, frugal, class's hands. Such a change would also reduce demand for credit and the interest rate. In short, and that is how Steuart starts a new chapter, 'the interest of money, in a trading nation, becomes determined, from natural causes, and from the irresistible effects of competition' (Steuart: 454).

It could not have been expressed more clearly. The statesman who appears so necessary to ensure the 'gentle vibration' of trade is not needed when it comes to interest rates. According to Steuart, the rate regulates itself in a better way without any statesman's intervention. All through the chapters of this part of the *Principles*, Steuart never stops to repeat this assertion. So we find ourselves in a paradoxical situation. Adam Smith, free-marketeer as far as commodity trade is concerned, appeals to the State when it comes to interest; while Steuart, who needs rules and a statesman for commodity trade, dismisses them as soon as interest rates are concerned. Let us take a closer look at Smith's and Steuart's positions.

The interest rate in trading nations is self-regulating, but actually no society is fully commercial, says Steuart, so the principles established require a support to be put into action. This is explicitly the case with the interest rate. Steuart does not seem to be fully convinced of the strength of the natural causes and effects of competition.

But as there is no country in the world so entirely given to commerce, as not to contain great numbers of people, who are totally

unacquainted with it, some regulation with respect to the rate of interest becomes necessary in order to restrain, on one hand, the frenzy of those, who, listening to nothing but the violence of their passions, are willing to procure at any rate for the gratification of them, let the political consequences of their dissipation prove ever so hurtful to the state; and on the other, to protect those who, from necessity, may be obliged to submit to the heavy oppression of their usurious creditors.

(Steuart: 454)

In other words, since ‘great numbers of people’ ignore the principles of political economy, the latter can have no effect! So the statesman has to carry out these principles. Carrying out these principles does not consist of fixing the interest rate but of watching over the market. Steuart develops the method to be adopted by the statesman in order to regulate the money market from both sides: supply and demand.⁹ To avoid competition on behalf of the demanders, the statesman must not ask for credit. Moreover he must avoid creating any demand for money. The statesman’s crucial intervention concerns the creation of money. Steuart sees a twofold advantage in the implementation of land banks: first, the possibility of creating money; and second, that of separating the demands for credit and money.¹⁰ In the end ‘nothing more is necessary than to prevent the competition of the dissipating class of inhabitants, from disturbing the rate which commerce may establish from time to time’ (Steuart: 460). The legal rate will then follow this rate established by the market, which Steuart describes as being, however, ‘not...*quite* so low as the conventional standard (or common rate); but so as to leave a reasonable for gentle fluctuations above it.’ (ibid.).

The two elements of a trading nation have some different needs. According to Steuart, manufacturer’s borrowing needs are less important than those of merchants. But in both cases the question concerns short-term credit whose purpose is to finance purchases before sale. So that unique thought can be applied to the two groups of agents, there will be only quantitative variation. Let us consider the manufacturer who borrows the whole amount of money necessary to acquire raw materials and tools. In relation to the merchants, there is a whole range of possibilities. At one end the manufacturer cannot pass the cost of interest on to anybody: he must share its alienation profit with the borrower. Such a deduction finds its limit when the whole profit on alienation is passed on to the borrower, when real value alone becomes what is due to the manufacturer. At the other end of the range of possibilities, the buyer, so the merchant, pay for the additional charge which is interest. The manufacturer obtains his profit on alienation while the merchant has to transfer this new charge to the final consumer, otherwise his own gain will be cut from that. Competition is between these extremes. When he maintains that a ‘consumer must

naturally repay all the expenses' and merchants or manufacturers have to raise their prices in proportion to interest (Steuart: 159), it appears that Steuart is only investigating the situation in which merchants or manufacturers must pass the cost of interest on to consumers (otherwise their gain will be undercut). A possible interpretation of Steuart's choice might be that, in his opinion, the credits system concerns only a small part of production and trade, financial analysis is not so far concerned: there is almost 'a very inconsiderable part of trade [which] is carried on with borrowed money, in any country in Europe' (Steuart: 467).

Conclusions

If Steuart's approach seems complex, it is nevertheless consistent. The 'free market' of the economic doctrine is reduced to the rank of a simple alternative to an economic policy. If the statesman must look after the proper functioning of the goods markets very carefully, his free market margin seems to be larger when he considers the interest rates of money. The reasoning proceeds in three steps. First, Steuart sets forth principles, even concerning money, on which everything in the market depends. Then, in order for these principles to be applied, he explains that the statesman has to take over and intervene to fix a common rate. Third, the legal rate crowns it all. In spite of the very different conception of fixing the rate of interest, one can find similar proposals in Smith and Steuart.

This similarity of conclusion is based, to my mind, on the very nature of political economy and on its function: namely, to define the conditions for the expansion of a society in which market relations prevail, to point out the obstacles to its development, and to provide the elements to surmount them. Here the statesman has to intervene so that the society of the past (that of the landowners) does not cause interest rates to rise too high, thus slowing down the evolution of the present society (that of the 'trading nations'). This, at least, is the interpretation that suggests itself to us when we read the chapter which ends the study of the principles determining the price of money. The question asked in the title of the chapter is: Does not interest fall in proportion as wealth increases? The answer is yes, but that the evolution of the rate depends more on the manners of a people than on the evolution of wealth. But in the last analysis, is it really a matter of the life-style and spirit of a people, or is it not rather the result of the division of a population into classes, with one class accumulating wealth (the 'frugal merchant') and the other dissipating it (the 'prodigal lord')? The conflict between these two classes regarding interest rates is more clearly presented by Steuart than by Smith. It was only with Ricardo's theory that this conflict reappeared in economic theory, though in a different form: the issue was no longer the interest rate but the return.

Notes

- 1 I have to thank Faruk Ülgen for his remarks and criticism and Marc Laudet for his careful revision of the text. All remaining faults are my own responsibility.
- 2 For Waszek (1988) the relationships between Hegel, Steuart, Smith and Scottish philosophy in general consisted of complex influences that cannot be explained simply by a system of cross-references.
- 3 All our quotations from Steuart's *Principles* refer to the abridged edition prepared by Andrew Skinner.
- 4 This forms the basis for Steuart's rejection of the quantitative theory of money (Book II, chap. XXVIII).
- 5 Kobayashi (1995) analyses this remark as a decisive indicator of Steuart's method.
- 6 Steuart's opposition to the 'barometer' of the wealth of trade was strong enough to make him decide to *change* the title of the chapter which contained the word when he worked on the second edition of the *Principles*.
- 7 This process, in which a given quantity of money is replaced by the corresponding part of the annual product, implies that money should be a purchase voucher providing the right to a given portion of the annual product; the transfer of money through the procedure of a loan at interest is merely a transfer of 'purchase vouchers', a 'delegation' of means, to use Smith's term (Benetti 1990).
- 8 The *dissipators*, those consumers driven exclusively by their desires, those 'prey' to usurers who ought to be protected, are for Steuart, as well as for Quesnay and Smith, the landowners. Steuart, incidentally, believed in *class behaviour rather than individual behaviour*. 'Every class of a people has their peculiar spirit. The frugal merchant will accumulate wealth, and the prodigal lord will borrow it' (Steuart: 470); once the 'frugal' merchant reaches the status of a gentleman, he will become 'prodigal', for 'the memory of past industry carries a dreg along with it, which nothing but expensive living has power to purge away' (ibid.).
- 9 In Chapters V, VI and VII of the first part of the *Principles* the arguments are criss-crossed, repeated and complete one another.
- 10 Although Steuart is quite aware that since this project leads to a drop in interest rates, it may bring about 'the opposition of the monied interest' and become 'impracticable' if the statesman is not sufficiently powerful (Steuart: 464).

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JAMES STEUART'S
PRINCIPLES AS A MODERN
 ANALYSIS OF MONETARY
 ECONOMY

Faruk Ülgen

Introduction

Steuart can be presented as a precursor of the 'Real *versus* Monetary' debate. The particularity of his principal work¹ is linked to its monetary nature. The monetary analysis intuitively developed in the *Principles* seems to be very different from the later developments of economic theory. We can identify this difference from two main bodies of Steuart's analysis: a monetary approach to the economy and the role of government intervention in this economic frame. We are not concerned here with Steuart's State interventionism, but we will attempt to clarify the monetary aspects of the *Principles*. We argue that the premises of an original monetary approach, totally opposed to the English political economy tradition, can be found in the work of this contemporary of Adam Smith.

In order to make a rigorous and faithful interpretation of Steuart's thought on money, we have to deal with the definition of the latter. In the *Principles*, understanding of money and of monetary economy is founded on the study of money as a unit of account and as a means of settlement.² To do this Steuart distinguishes money and commodities in order to give to the former a particular character and place in economy. The matter is not solely to define the various functions of money, it is to think money without commodities and to elaborate a rational model of monetary economy.

In the first section of this chapter, following Steuart, we define money as a unit of account. On the theoretical level, we argue that, as a unit, money is the first economic category. We show that Steuart distinguished money from metals. The second section develops this distinction in order to conceive money and the content of the unit of account separately. This separation is illustrated in the *Principles* by the settlement problem between different national monetary areas. Having studied money in these first two sections

as a first economic concept and not as a redundant variable which can be integrated in models after establishing value theory, in the third section, we use the Steuartian description of monetary circulation process to understand the functioning of a decentralized economy. An interesting result of this study is that in such an economy, the quantity of money in circulation seems to be an endogenous variable. The fourth section represents the credit economy as a payments system. The role of banks in the *monetization* and circulation of *private debts* is underlined. The fifth section concludes this chapter by recapitulating some of Steuart's propositions on the safety of the banking and the monetary systems.

Money as unit of account

As Keynes does his *Treatise*, Steuart starts Book III of the *Principles*, which is devoted to money, with a chapter entitled 'Of Money of Account'. Unit of account is defined as 'an arbitrary scale of equal parts, invented for measuring the respective value of things vendible' (i.e. exchangeable) (408). It is the adequate equivalent for all commodities. The function of money is to make known the value of things. Steuart said that all the species of each commodity according to its different qualities of goodness may be reduced to a proportion of value expressed in terms of money.³ 'Money is an ideal scale of equal parts' (411), it is the *only permanent* scale of measuring the value of things. Steuart stated that bank money has a more determinate value than a pound of fine gold, or silver (metallic money). It is a unit which the invention of men, instructed in the arts of commerce, have found out. This bank money 'stands invariable like a rock in the sea' (412) when precious metals, with their intrinsic value, vary with regard to this common measure, *like every other thing*. No adulterations in the weight, fineness or denominations of metals (coins) have any effect upon bank money because coins are commodities like every other economic goods. All is merchandise with respect to money, which 'stands unrivalled in the exercise of its function of common measure' (412). The opposition between Steuart's position and the English political economy tradition, which needs no money in order to set the values of things, is therefore more explicit. Steuart's economics cannot be understood without money.

Money and coins are quite different in their principles. Circulation of metals as money is not a contradiction since they are considered to be money. Therefore, gold, in the form of coin, does not circulate as commodity but as money.⁴ So Steuart emphasized that

vicissitudes in the mass of circulation are not peculiar to paper currency? In countries where nothing circulates but metals, the case is the same; the operation only is more awkward and expensive. When coin becomes scarce; it is hardly possible, in remote provinces,

to find any credit at all; and in the center of circulation, the use of it (interest) must rise very considerably.

(498)

There is no confusion between money and metals in this statement since Steuart insisted that

A gentleman chooses to form a cascade of the water which serves to turn his corn-mill; consequently, the mill stops; but in its stead, he immediately erects another which turns with the wind. Coin is the water, bank paper is the wind, and *both are equally well calculated for the use they are put to.*

(615)

This allows us to affirm that, unlike Ricardo, who analysed coins and units of account on the same level *without distinguishing account and payment*, Steuart developed a particular analysis of the unit of account with regard to precious metals.⁵

Obviously, the link between unit of account and metals stated in the *Principles* is not the same as that established by the usual economic theory. For Steuart, a unit of account cannot be fixed to any material substance because the value of the latter may vary with respect to other real substances. Therefore, the relationship between money and metals is the same as the relationship between money and other things. Considering the florin banco of the Bank of Amsterdam as a proxy for ideal money, Steuart stated that

this is a representation of the bank money of Amsterdam, which may at all times be most accurately specified in a determinate weight of silver and gold; but which can never be tied down to that precise weight for twenty-four hours, *any more than to a barrel of herrings.*

(413, our italics)

The fact that money may be represented by precious metals does not mean that the latter have the validity of the former. 'The metals...are to money what a pair of compass is to a geometrical scale' (414). Use of any material support is unimportant as long as the support is a reliable measure of values, i.e. it represents the unit of account. The practice of using metals as money, however, implies a stability problem for Steuart insofar as the value of metals may vary in the same way as other things. Money must be stable, therefore monetary practice should be independent of goods. This position is clearly opposed to the free banking theory. The free banking view assumes that the establishment of a gold standard or of a composite-commodity standard can resolve the stability problem of modern monetary systems. According to this view,⁶ the near-dependence of money on government expenditure is

assumed. Therefore, paper money, exogenous and dependent on government vagaries, and directly linked to the unit of account by arbitrary legal restrictions, renders the unit unstable. In fact, free banking assumes that the value of the unit depends on monetary aggregates' fluctuations controlled or provoked by public monetary authorities. By separating the means of payment and unit of account, and letting the market fix the value of the former as any other commodity, the free banking theory holds that the monetary system might find a solid base for general stability.

Steuart's opposite view gave a stabilizing advantage to the separation between money (means of payment *and* unit of account) and commodities. For Steuart, the monetary practice independent of goods can be noted in 'the advantage obtained by the stability of paper or symbolical money' (420). The doctrine of credit emphasized by Steuart distinguishes money from commodities. This manner of studying the credit-money economy does clear up the misunderstanding coming from the use of two distinct a priori terms: unit of account/paper money and the use of precious metals in order to determine the content of banknotes. We argue that the difficulty for the traditional economic theory of conceiving monetary relations through rigorous monetary theory comes from the confusion between money and commodities. When Steuart talks about the necessity of using metals in monetary circulation, he states that

in order...to render material money more perfect, this quality of metal [having an intrinsic value]...should be taken from it; and in order to render paper money more perfect, it ought to be made to circulate upon metallic or land security.

(420)

This does not imply the so-called necessary double coincidence of the commodity standard and money—a coincidence that we can find easily in usual economic theory (which is a theory of value and not of money).

Steuart's reasoning goes to and fro between a monetary system based on precious metals and a pure monetary system without real basis. Steuart explains (but does not defend) the utility of precious metals on a practical level. When he makes a general theory, he suggests a paper money based system without any relation to commodities. The third chapter of Book III is devoted to the unsuitability of metals to performing the role of money:

by fixing the money of account entirely to the coin, without having any *independent common measure*...the whole measure of value and all the relative interests of debtors and creditors, become at the disposal not only of workmen of the mint, of Jews who deal in money, of dippers and washers of coin, but they are also entirely at the mercy of princes.... All and every one of these inconveniences to

which coin is exposed, disappear in countries where the use of pure ideal money of account is properly established.

(421)

That means that money and commodities must be distinguished from one another. Steuart, studying the link between the unit of account and metal, expresses the idea that the unit of account is not settled in a commodity standard but in specie which is legal tender in the payments circuit. This relation does not mean that money is commodity:

the value of the money-unit of account is not to be sought for in the statutes and regulations of the mint, but in the actual intrinsic value of that currency in which all obligations are acquitted, and all accompts are kept.

(430)

Therefore, money is studied in its twofold dimension: as a unit of account and as a means of settlement with a defined content.

Content of the unit of account

Specie has an immediate power of legal tender in the eighteenth century. Debts are settled in terms of specie. Presenting specie discharges the debtor vis-à-vis his creditor who cannot refuse it (Courbis 1994b:8). This power gives it a value in terms of units of account *irrespective of its metallic content*. There is an implicit separation between units of account and the commodity standard. The separation is implicit because the system remains metallic. We remark that from a historical perspective, the unit of account seems to be anchored at once on a physical good (precious metals) and then on a financial contract (credit/debt relations). This twofold origin of the unit of account probably locks Ricardo and Marx into the *realistic* vision from which they tried to develop a value theory of money. They confused (for the sake of simplicity!) money and commodities.

Can we admit with Schumpeter ([1954] 1963:297) that as long as the practice of payments of the epoch, especially the practice of the four great clearing and deposit banks,⁷ was based on specie-standard, economists have been familiarized with the idea of a money of account which was defined by quantities of metal, and therefore, would not get rid of the erroneous metallist conception of the unit of account. Although Steuart did not live through the inconvertibility period in England (1797–1821) as Ricardo did, he did not commit Ricardo's mistake. His logic of monetary economy does not only depend on his particular observations but has general conceptual consistency:

Money of account, which is what we understand by denominations...calculated to determine the value of things.... It must, therefore, be by the money of account of different nations, that the value of bullions and of coin can be ascertained.

(573)

The study of the money of account is the first stage of the study of the monetary economy: determination of a pure money unit as unit of account. Following this, Steuart stated, 'When coin is introduced, the denominations of money are realized in a determinate quantity of the precious metals' (573). That is the second stage of our study of monetary economy: determination of the *content of unit of account* in order to settle balances. To avoid any misunderstanding, the difference between money and commodity is immediately emphasized by Steuart himself: 'When coin, therefore, is employed in paying sums according to the legal denomination which it carries, it is money, not merchandize; but when it is given at any other rate than its denomination, it is merchandize, not money.' This quotation shows the perspicacity of Steuart as opposed to Marx who stated that notwithstanding the social importance of the unit of account, the economists are better off in forgetting about it and in concentrating themselves on the study of the weight of the metal used as a standard (in order to *understand the gist of things*). In the same vein, Say stated, as Marx, that it is not the denomination of money which permits the valuation of things but the merchandize circulating as money: 'The name is useless but to make known the quantity of metal we want to indicate' (quoted in Courbis 1994b:4). Their conception typically illustrates the metallist view of the value theory.

Steuart did look for a real anchor point for the creation of paper money in order to materialize the content of unit of account (407), but he admitted at the same time that when gold and silver are no longer present in money (as in the case of modern money), fluctuations in the quantity of metals lose all significance as far as money is concerned.⁸ Therefore, a study of the content of the unit of account shows that the problem is to define a general common rule to identify the social (generally accepted) content of the unit. *This content defines the means which will be used to settle private individual balances.* So, the question is not to fix any value to money in order to create a good measure of value throughout a particular relation between *numéraire* and the money standard. The question is whether money can be conceived as a pure unit of account without a general predefined content. In fact, at equilibrium, the sole unit of account, a pure number, might be sufficient to realize exchanges between private and independent economic agents (all balances are settled as expected). But out of equilibrium, settlement of balances implies a general means of settlement which would have a public character. That is not an arbitrary assertion. Because of the private nature of debt-based money, no one can repay a debt by using his own debt. An outside

authority must intervene—as was the case during the seventeenth- and eighteenth-century periods of free banking in Scotland; and as is the case in the United States where private banks have created the clearing house, a sort of modern central bank, independent of agents involved in operations to create money.

Outside intervention is used to define the content of the unit of account, in terms of precious metals or in terms of legal-tendered high-powered public money. The need to have an explicit content for the unit of account is due to the existence of balances which are not cancelled out (entirely compensated). Steuart pointed out that, first and foremost, money is a unit of account, an ideal scale of equal parts and that there is no necessity for money to have any other value than what by *convention mankind thinks fit to give it*:

The first step being perfectly arbitrary, people may adjust one or more of those parts to a precise quantity of the precious metals; and so soon as this is done, and that money becomes realized, as it were, in gold and silver, then it acquires a new definition: it then becomes the *price, as well as the measure of value*.

(411)

For Steuart, it does not follow from this adjusting of metals to the scale of value, that they themselves should therefore become the scale.

For classical economists (as for modern ones), discussion on the *real* content of money is connected to the search for a money standard. The money standard is studied as a given good used to anchor the monetary system in the real sphere, the only source of wealth. In this case, the introduction of a standard is viewed as necessary. Steuart does suggest the idea of monetary circulation without a particular standard for domestic economy but he analyses international monetary relations in terms of an explicit content. The question of the necessary determination of the content of the unit of account in a decentralized economy is then taken up in the discussion on the relations between different payment areas. Here, it is interesting that two centuries before the abolition of the gold exchange standard, a deep reflection on the problem of the absence of supranational money appears. The question becomes therefore: don't we return to the real metallic-basis money idea with the introduction of precious metals in international settlements? For Steuart the answer seems to be no.

It is true that Steuart calls precious metals (*specie*) 'the money of the World' (498, 642) and banknotes 'the money of the society' (498). The difference between these two types of money comes from the fact that in the settlement of balances between different payment areas, we have to define a *common* settlement means because of the lack of supranational money: 'the way to calculate the real par of exchange between nations, *who have in common no determinate and invariable money, exclusive of coin*, is to consider

fine gold and silver as the next best standard' (573, our italics). This reciprocal agreement allows different parties to define the content of the debts to be settled. This content may be gold or other things supposed to have legal tender as a good support of settlement. Settlement of balances between two payment areas must be done using a monetary sign which is universally accepted and not arbitrary. As Steuart stated, 'when the reciprocal debts of two nations are equal, there is no occasion for bullion to discharge them' (585). That is the well-known equilibrium situation where all money is extinguished (markets are cleared). In fact, when balances are cancelled, there is no need to identify the means of settlement. Debts are cancelled reciprocally, their denomination in terms of a common unit of account is sufficient to confront them and to restore respective individual budget constraints.⁹ But

trading nations are many; and from this it may happen, that one who, upon the whole, is creditor to the world, may be debtor to a place which is also creditor to the world; and in this case bullion is necessary to pay the debt.

(585)

In this case, the determination of a general means of settlement seems to be necessary.

Clearly, the non-realistic nature of Steuart's conception of money permits him to conceive of a different representation of the economic system from those constructed by the great names of economic theory. More particularly, it permits him to study the economic relations in a monetary circulation process.

Monetary circulation

In Steuart's *Principles*, money and the decentralized nature of the economy are studied together. Steuart did not try to integrate money in a hypothetical barter model in order to *facilitate* exchanges between various commodities. Distinction between a barter economy and a modern decentralized economy seems to be a logical necessity if one is to avoid conceiving of the modern economy as a barter economy to which one particular good, the money, is added just for the sake of convenience. Some considerable time before the well-known work of Arrow and Hahn, *General Competitive Analysis* (1971), Steuart pointed out that when the reciprocal wants of exchange are satisfied from barter, it is impossible to introduce money into the economy.¹⁰ Money is the specific mode of coordination in a decentralized economy. Steuart asserted that barter is transformed into trade with the emergence of money:

how bartering grows into trade...how trade comes to be extended among men; how manufacturers...come to be established; and how men come to submit to labour, in order to acquire what is not absolutely necessary for them. This, in a *free society*, I take to be chiefly owing to the introduction of money.

(155)

Steuart thinks of the economy in monetary terms. At any stage of his reasoning on the evolution of modern economic society, money exists as the main variable. Money is omnipresent because the exchange process is viewed as dependent on the existence of money: 'this is the common price of all things; it is a proper equivalent in the hands of those who feel a want' (156–7). As Vickers pointed out (1959:248), in Steuart's work, money and monetary demand were seen to underpin the structure of economic society. Therefore, in economic development, the role of merchants throughout the process of monetary circulation is emphasized:

The merchant here represents the money, by substituting credit in its place...the merchant with his credit, is a new refinement upon the use of money...the merchant represents by turns both the consumer, the manufacturer, and the money. To the consumer he appears as the whole body of manufacturers; to the manufacturers, as the whole body of consumers; and to the one and the other class his credit supplies the use of money.

(156)¹¹

Money in circulation is essential to the functioning of the economic system. So, attention is drawn to the quantity of money needed in the process of circulation to assure production. Money creation is viewed as an endogenous phenomenon. The quantity of money does not depend on the exogenous authorities' supply but on the behaviour of the spending units (including the state). Any excess of supply over needs of economic circulation will be self-reabsorbed:¹² 'the current money of a country is always in proportion to the trade, industry, consumption, and alienation, which regularly take place in it' (444). When the money already in the country is insufficient for economic circulation, a part of 'solid property' (444), equal to the deficiency, may be melted down and made to circulate in paper. As soon as the paper money increases beyond the deficient proportion, a part of the amount in circulation must return to the debtor in the form of paper, and be realized anew: 'no money is to be suffered to remain useless to the proprietor of it' (444). The same logic is also applied to international capital flows. When there is an entry of specie (or foreign currencies) because of an excess balance, that would imply the extinguishing of the domestic debtors' debts.

From this we may conclude, that the circulation of a country can only absorb a determinate quantity of money (coin and paper); and that the less use they make of coin, the more use they will make of paper, and vice versa..., and when trade and alienation increase, *caeteris paribus*, so will money...and when trade and alienation diminish...so will money.

(498)

This mechanism, however, does not always guarantee an adequate quantity of money in circulation in a given market economy. The continuity of economic relations requires that the economic agents, including monetary authorities, abide by certain rules:

alienation among individuals cannot exceed the proportion of the circulating equivalent of a country, so a statesman when he intends *suddenly* to augment the taxes of his people, without interrupting their industry, which then becomes still more necessary than ever, should augment the circulating equivalent in proportion to the additional demand for it.¹³

This money is created and circulates in a chain of spending, creation of wealth and repayment of debts. For Steuart, this chain is ‘a kind of circle, returning into itself (638). In this monetary circuit, money is endogenous, the importance of which is obvious to Steuart: ‘without the intervention of this engine, namely *the money created in proportion to the demand for it*, the chain would be cut off, before it could reach the link from which it first set out’ (638).

Steuart’s scheme contains two elements which together determine the quantity of money in circulation: debt creation with grants of credit and extinction of debts with reimbursing credit. These two elements are endogenous to the economy and form an endogeneous quantity of money:

notes issued to support the demand of circulation never can return upon the bank, so as to form a demand for coin; and if they do return, it must be in order to extinguish the securities granted by those who have credit in bank...; and if those notes return to themselves, without being called in, *this phaenomenon would be a proof that circulation is diminishing of itself*: but supposing such a case to happen, it is plain that such return can produce no call for coin; because when notes return it is not for coin, but for acquitting an obligation or mortgage.

(507)

When money returns to banks in order to extinguish previously contracted debts, it implies a fall of quantity of money in circulation with the annulment of money reimbursed. On the contrary, if money returns to banks as a counterpart of specie (coins), this does not diminish money quantity but augments the demand for coins. These changes occur depending on the economic agents' needs: 'Notes are paid in...because circulation has thrown out. Now if circulation has thrown out as superfluous, it never can have occasion for coin in their stand' (507–8).

Steuart's view squares with well-known economic logic (see below):

The utility of...credit, or paper-money, is principally at the instant of its entering into circulation;...by this invention the desire to consume creates...the circulating equivalent, without which the alienation of the produce of industry would not have taken place.
(328)

In modern terms, this theoretical position can be related to post-Keynesian endogenous money theory and to the Keynesian finance motive. Therefore, we can use modern terms to discuss the role of monetary financing in the realization of an expected level of economic activity following the projects of entrepreneurs.

Credit, money and payments systems

In a monetary economy, credit allows economic agents to establish economic relations. The measure and the means of economic circulation are given by money: 'Symbolical or paper money is but a specie of credit: it is no more than the measure by which credit is reckoned. Credit is the basis of all contracts between men' (406). The double nature of the operation of borrowing money throughout debt contracts is well understood by Steuart: 'Credit and debts are...inseparable, because they necessarily imply each other' (443). The modernity of Steuart's analysis becomes clearer when one studies the *Principles* in terms of the Keynesian concept of effective demand. This latter is defined here as the future profit expectations of entrepreneurs which allow them to produce and then to borrow means of payment in order to distribute further wages and other expenditures. Steuart pointed out that credit is a relation of reasonable expectation, entertained by him who fulfils his side of any contract, that the other contracting party will reciprocally make good his engagements. That is the rational individual expectation¹⁴ on a subjective/effective demand-based future. It concerns the totality of the economic situation as a whole and the particular conditions of the contracting parties. What is at the basis of credit relations is confidence in the future, which is the soul and the essence of credit, 'and in every modification of it, we shall constantly find it built on this basis' (442). This confidence is a

variable which can be evaluated from certain subjective and objective criteria whereas it has for its object a *willingness* and a *capacity* in the debtor to fulfil his obligations. Therefore, money creation, the mechanism of credit and debt, and relations of confidence are intimately linked with each other. This is true in a decentralized economy where contracts on the future are established from subjective expectations and have to be financed in order to become effective. *It is the crucial problem of a functioning economy before a point of equilibrium has been reached.* In a non-ergodic world, when economic units want to undertake some economic activities, what they first want is means of payment. They obtain it from the credit system through the debt-financing process. The economic units do not have to wait in order to reach an effective equilibrium point before they realize their production or investment project.¹⁵

A study of the three forms of credit suggested in the *Principles* is part of the same problematic.

- 1 Private credit attributed on the basis of sufficient collaterals in order to guarantee repayment of debts and interest charges. This is the surest form of credit (e.g. credit for consumption);
- 2 Commercial credit, which is founded on the confidence or capacity of the debtor to use funds well and realize sufficient receipts to reimburse his debt. It is a question of financing entrepreneurs' activity from banks. Projects to be financed are founded on subjective expectations concerning the flow of future positive profits. Commercial credit is the most precarious form of credit, which allows us to consider relations between agents in an asymmetric information context (with adverse selection or moral hazard problems);
- 3 Public credit granted to government.

The main differences between these forms are differences in confidence, the nature of collaterals and the character of debtors (public or private). For our purposes, the second form seems to be most interesting. As Schumpeter did, Stuart suggested this second form of credit as the dynamic element of industrial evolution (Ülgen 1996b).

A decentralized economy functions on the basis of a credit/debt mechanism. A priori, an equilibrium where all debts would be cancelled does not seem to be possible in a monetary economy. Stuart emphasized that when credit operations imply the creation of new money, debts are not reimbursed totally. Giving the example of times of war, Stuart compares the old society and the modern credit period: 'Again, at the end of a war, in place of an empty treasury, as was the case of old, we find a huge sum of public debts' (446). Financing of war or peace is realized by the creation of new debts, which circulate as general monetary signs in the whole economy. This is a Schumpeterian view. Schumpeter remarked that:

[the entrepreneur] does need credit...to *become* an entrepreneur.... He can only become an entrepreneur by previously becoming a debtor. He becomes a debtor in consequence of the logic of the process of development, or, to put it in still another way, his becoming a debtor arises from the necessity of the case and is not something abnormal, an accidental event to be explained by particular circumstances.

(Schumpeter 1961:102)

For Steuart, economic activity cannot be understood without studying credit/debt relations. He explains economic evolution in monetary terms: the institution of an adequate payments system allowing industry and trade to develop freely:

Do we not see every day, that ingenious workmen, who obtain credit for very small sums, are soon enabled, by the means of their own industry, to produce a surprising value in manufactures, and not only to subsist, but to increase in riches?...the value of a man's work may be estimated by the proportion between the manufacture when brought to market, and the first matter. Nothing but the first matter, and the instruments of manufacture, can be considered as the objects of borrowed money; unless we go so far as to estimate the nourishment, and every expence of the manufacturer, and suppose that these are also supplied from borrowed money.

(468)

We can carry this reasoning to its conclusion and show that in a monetary economy, credit finances not only the first matter and the instruments of manufacture but every expence of the manufacturer too, including spending of profits. To do this, let us assume a bisectorial schema without government, with two enterprises: enterprise 1 (E1)—production goods—and enterprise 2 (E2)—consumption goods.

The quantity of money is assumed to be given and constant in the analysis period. Expectations are fulfilled. This is an equilibrium schema without deficit. All payments are expressed in monetary terms. We assume for the sake of simplicity, that all production costs are represented by wages. The enterprises' accounts are therefore as follows:

With:

W (Wages)=W₁ + W₂; B (Benefits)=B₁ + B₂;

P_{gs} (Production goods sold)=P_{gb} (Production goods bought);

C_{gs} (Consumption goods sold)=C (Consumption)=Ch (Consumption of wage earners)+Co (Consumption of owners)=S (Sales, with S₁ sales of sector 1);

P =Expected profits; $Sep1$ and $Sep2$ =Spending of expected profits.
Then,

For E1: $W1 (200)+B1 (50)=Pgs (250)$;

For E2: $W2 (300)+B2 (100)+Pgb (250)=Cgs (650)$.

Adding E1 and E2, we obtain (after elimination of intermediary goods' values):

$W (200+300)+B (50+100)=Cgs (650)$.

In this descriptive macroeconomic schema, we remark that the two elements of employment are: 1) wage costs; and 2) retention of profit in favour of entrepreneurs in the added value mass in the process of production and sale. This is possible only if expected profits are spent by entrepreneurs when they formulate (project) the effective demand.

For households, we have:

$C (650)=W (500)+B (150)$

If we consider households as owners of enterprises, we have:

E1+Household owners: $W1 (200)+Sep1 (50)=S1 (250)$;

E2+Household owners: $W2 (300)+Sep2 (100)+Pgb (250)=S (650)$.

And for the households as wage earners, we have:

$Ch (500)=W (500)$.

On the macroeconomic level, we have:

Owners: $Co (150)=P (150)$; Wage earners: $Ch (500)=W (500)$.

If proprietors don't spend their anticipated profits, sales cannot be as indicated above and therefore profits cannot be realized. When entrepreneurial activity is financed by credit creation, this includes spending of the expected profits too. In the whole process of wealth creation, one cannot wait to get revenues in order to spend them. Revenues come into existence from the spending process based on expectations of future profits. So far, we have only followed Steuart in a Kaleckian vein: Entrepreneurs earn what they spend, wage earners spend what they earn.

Consequently, the effective character of the production process must be underlined. In other words, economic units don't decide to proceed at equilibrium. They carry out their projects if they can borrow credit money. Then they will try to sell their products in the market and reimburse their debts. The crucial problem of presenting a fluid credit system becomes

obvious. At this point, a study of the banking system and the rules governing the payments system becomes necessary.

Steuart asked the following crucial question: Why can any man not issue his own notes without his needing to place banks between the public and himself? Why should any man use bank credit and pay interest for it instead of issuing his own money from his real wealth? 'Because the one [banknotes] circulates like money, the other does not' (463). Unfortunately, Steuart did not develop this analysis. However, after globally defining the process of the creation of credit money and its role in the economy, he implicitly underlined the fundamental role of banks, which is to permit circulation of private agents' debts as legally tendered money in the entire economy.¹⁶

The importance of banks consists not only in their activity of granting credit to individuals who have the requisite collateral (e.g. mortgage loans), but also, and even more importantly, in the creation of credit money to finance individuals whose projects seem to be profitable (in spite of uncertainty):¹⁷

The great use of banks is to multiply circulation, and to furnish the industrious with the means of carrying on their traffic:...if banks insist upon the most solid sureties before they give credit, the great utility of them must cease; because merchants and manufacturers are never in a situation to obtain credit upon such terms.

(483)

From this point of view, the analysis should focus on the issues of the creation of money, i.e. modes and criteria of credit-granting processes, and not the actual counterpart of credit contracts (accumulated real wealth). Hence, the modes of access to money (the process of minting or monetization of projects and debts) are most important for the understanding of relations which can establish a good bank-financing system. These relations concern the creation of private debts circulating as money in the whole economy.¹⁸ Moreover, Steuart emphasizes the difference between necessary and voluntary circulation:

the *necessary* has the *payment of debts*; the *voluntary* has *buying* for its object...he who buys, or inclines to buy, *must have money*, or he can buy nothing; for if he buys on credit, he then falls immediately into the former category, and *must pay*. By withholding money for the uses of circulation, which banks may do for some time, buying *may* be stopped; paying *never can*.

(516)

This is the ineluctable connection between money creation/money circulation and the rules of the monetary system. *Repayment constraint* is one of the main elements of such a system.

Banks, granting credits, carry out private contracts involving the whole economic society. As Schumpeter pointed out:

the entrepreneur is a debtor in a deeper sense..., he receives goods from the social stream—again in principle—before he has contributed anything on it. In this sense he is so to speak a debtor of society. Goods are transferred to him, to which he has not that claim which alone gives access to the national dividend in other cases.

(Schumpeter 1961:102)

Changes in the demand of means of financing reflect changes in economic activity on the basis of entrepreneurs' expectations (merchants and industrious men). Economic magnitudes are the results of monetary operations (the process of debt creation). Banks, in their role of money creators, anticipate the formation of future receipts and they temporarily remove the budget constraint of the entrepreneurs. Steuart stated that as long as sufficiently rigorous and solid rules are established, monetary systems might function without any metallic content of the monetary unit, which was solely an old *rule*. Therefore, the functioning of the monetary system is not linked to the well-defined existence of accumulated real wealth (e.g. loanable funds) or of precious metals. Settlement of debts which represents the repayment constraint to be respected for the continuity of monetary relations, does not have to be realized in specie: 'the only method here is to give security, and pay interest for what cannot be paid in any other value' (596). The problem is to establish adequate modes of acceptable guarantees to use as counterparts for carrying forward matured debts which cannot be repaid. For confidence between creditor and debtor is not sufficient to establish well-defined and well-behaved monetary relations in a private decentralized economy. The gentleman who borrows cannot repay his loans if his expectations of profits are not realized on the markets. So how can one establish confidence in a world of uncertainty? Steuart gave implicit recognition to this problem of the continuity of the payments system based on private expectations and contracts. He stated that to establish a well-behaved credit system, government should intervene in order to make clear the laws governing debt contracts (438). Authorities must define rules in order to render the account-keeping of merchants (and of all debtors) credible and regular. This must enable agents to check publicly the private operations involved in the creation of legally tendered money.

Monetary rules

The establishment of a good banking system is not a matter of the content of the monetary unit but a matter of good general rules. Steuart considered that ‘coin is not absolutely necessary for carrying on domestic circulation’ (485). Banks can keep a part of their reserves in precious metals circulating in the form of specie depending on the public’s payment practices. The specie seems to give banknotes a real validity to assume that the credit *convention* remains enforced. The specie content of the monetary unit assures that the unit itself does not appear meaningless. Money has a recognized general value represented in precious metals when the content of the monetary unit is determined by a definite denomination in metals. In our modern economies, this content is not determined by metals but by national or central bank money in a given payments area. The socially recognized value of this content is the legally tendered power of monetary signs circulating in the economy. Their support is not a type of real wealth, such as precious metals, but a public signature. Consequently, in order to reinforce the security of the payments system, Steuart suggested public intervention, because private confidence is only a metaphysical variable and cannot establish a general payments system. Moreover, as already emphasized, precious metals cannot found a payments area because they are only goods in the same way as other ordinary goods:

If no national bank be established under proper regulations, and if entire liberty be allowed to every one to take up the trade of banking, who can issue his notes, I think it is against all principles of good policy not to oblige such banks to keep books open, to be inspected regularly by some authority or other.

(524)

Public authorities do not create money, they only authorize, control and supervise (in the name of the whole economic society) private money creation operations, because money is fundamentally different from good production processes run by industrious men. Money is a public matter in the *Principles*.

Explaining bankruptcy of John Law experience (1720), Steuart pointed out that ‘an ill-concerted system of credit may bring ruin on a nation, although fraud be out of the question’ (550). Minsky has qualified this problem (failure of realization of expectations financed by bank credit) as an *ex post* problem in result and not an *ex ante* one in conception (Minsky 1982:37). For Steuart, the bad management of the credit system in France illustrates the dangers and limits of government, and the big banks’ abuse of common monetary rules. Therefore, a functioning payments system based on paper-money support may be conceived only if general rules are expected to be applied and respected. Any abuse of these rules on the part of government or banks

might occasion a major payment crisis, which would call these rules into question.

Given the mode in which a (monetary) economy functions, respect of rules concerning circulation of notes has to be observed everywhere. Laws must intervene in order to regulate the circulation process of private debts. Circulation of notes leads to the cancelling out of reciprocal debts by a sort of transfer, a permutation of debtors and creditors. This is the well-known compensation/clearing system of debts and credits in a banking system. An essential aspect of the banknotes' circulation process needs to be underlined, however: 'This is the plain principle of a bill of exchange. From which it appears, that *reciprocal and equal debts only can be acquitted* by them' (568). When balances are not cancelled (see above), i.e. when debts and credits are not compensated between themselves, we have to define a means of settlement implying an intervention, which, for Steuart, cannot be private:

Were there never any balance on the trade of nations, exchangers and brokers would find little employment: reciprocal and equal debts would easily be transacted openly between the parties themselves. No man feignes or dissembles, except when he thinks he has an interest in so doing. But when balances come to be paid, exchange becomes intricate; and merchants are so much employed in particular branches of business, that they are obliged to leave the liquidation of their debts to a particular set of men, who make it turn out the best advantage for themselves.

(571)

Monetary and financial intermediaries appear in order to render practicable exchanges based on payment relations. In modern terms, we can consider an asymmetric information context with a set of particular agents. These agents are specialized in the collection and processing of information on the basis of a normative set of rules, which regulate modes of convertibility and the compensation of various private debts and credits.

In the first chapter of Book IV, Steuart suggested some essential prerogatives for establishing general rules of convertibility and compensation. The first difficulty in the settlement of balances is exactly to define the means of settlement or the process of determination of the content of the unit of account. The second difficulty is to determine how balances can be settled through credit without precious metals when the latter are inefficient (inefficient in practice or in quantity) and which agents must realize such an operation. Following this, one must search for conditions of realizing such a settlement with symbolical money. This question is related to the process of carrying balances forward for the continuation of private debt circulation without bankruptcy. To avoid bankruptcy and a major payments crisis, the system must avoid liquidation of deficit units. Establishing a general set of

rules governing relations between creditors and debtors seems to be necessary. Here we note two interesting issues: 1) Stuart's analysis allows us to conceive of the functioning of an economy with non-cancelled balances and then, an economy in disequilibrium; 2) This is conceivable only if there is a set of common rules to be applied to the totality of monetary relations:

in one way or other, all debts contracted will in time disappear, either by being paid, or by being abolished: because it is not to be expected that posterity will groan under such a load any longer than it is convenient.

(636)

In this essential remark concerning the repayment (settlement) constraint, Stuart comes very near to our modern world, in which the content of the unit of account does not need the commodity standard. But the problem still remains when we come to analyse the international settlement of national balances. In this case, nations choose (implicitly or explicitly) an international currency, which at the same time represents a symbolic currency (e.g. the dollar), as their means of settlement. In general, the settlement of balances between private economic units is done by money, whether real or symbolical: 'every expedient that could be fallen upon to keep accounts clear between them, is neither more or less than the introduction of *money*, either *real* or *symbolical*' (314).

Conclusion

We remark with Schumpeter that 'the only effort at building a theory of money on an antimetallist basis stands to the credit of Sir James Stuart' ([1954] 1963:296).¹⁹ In fact, the *Principles* contains various elements allowing us to suggest a general conceptual reflection on the 'Real *versus* Monetary' debate.

Around 230 years after the first publication of the *Principles*, this debate, with the fundamental problematic (suggesting an economic theory of a decentralized private society) that it contains, remains intense because of the absence of money in usual economic theory and because of its inescapable presence in the real economy.

Notes

- 1 In this paper, the edition used is Skinner (1966). Numbers in brackets following Stuart's quotations are the page numbers of this edition.
- 2 Implicitly, we are trying to show that a means of settlement is more than a means of payment.
- 3 This relates to the position of Simmel:

The proposition: A worth one mark, purifies A from all which is not economic, i.e., from exchange relation with B, C, D, E. This mark, as value, is the function of A, released from its support.... All that A can be in itself and for itself and which does not belong to this pure relation, remains entirely indifferent.

(Simmel 1987:111)

(All translations from French editions into English are ours.)

- 4 See Deleplace (1985) for a discussion on this point.
- 5 For Ricardo, the unit of account is part of the study of variations of the gold standard. Although Ricardo distinguishes money and merchandise in his *Principles* (Chapter 13), in his studies on the 'Bullion Report' (*Pamphlets and Papers 1809-11*, in Ricardo 1962) this distinction is lost because he conceived of both gold and money as merchandise. This theoretical choice permitted him to apply value theory to money, i.e. to determine monetary gold prices on the commodity market. For a development on this subject, see Courbis (1994a).
- 6 See Wallace (1983), White (1993) and Yeager (1987).
- 7 Of Amsterdam, Hamburg, Genoa and Venice.
- 8 The same idea is present in Oresme's *Treatise on Money* (1989:100).
- 9 However, when balances are cancelled, we need money as a unit of account in order to determine nominal debts. Denomination of debts has to be done in a common unit of account recognized by all contracting parties.
- 10 Galiani studied money as the common measure of all things, as the only means of conceiving decentralized exchanges in a payments system ([1781] 1955:78). See Benetti (1994) for further development.
- 11 Money does not only permit the economy to function but it reinforces the circulation of money as the economy's main impetus:

So soon as money is introduced into a country it becomes...an universal object of want.... The consequence is, that the free hands of the state, who before stopped working, because all their wants were provided for, having this new object of ambition before their eyes, endeavour, by refinements upon their labour, to renounce the smaller inconveniences which result from a simplicity of manners.

(Steuart: 156-7)

- 12 Steuart gives the example of the exportation of metallic money when its quantity becomes excess.
- 13 For support of this endogenist view of money, cf. Oresme (1989:49).
- 14 The rationality is, here, subjective; i.e. when individuals make projections concerning the future they believe that their expectations will be realized as projected. In this assertion we take into account the difficulty of realizing expectations due to the problem of asymmetry of information and to the uncertain nature of the decentralized economy.
- 15 This schema leads us to study the stability problem of a monetary economy where the projects are financed from the creation and circulation of private debts. See Ülgen (1996a).
- 16 According to Steuart, it is for this advantage of circulating their own debts as money that economic agents pay interest to banks. Following this logic, the interest rate seems to be a purely monetary phenomenon and concerns money

- borrowed from banks for a determinate period specified in debt contracts. Steuart pointed out that regularity and continuity of credit/debt relations have to be guaranteed by authorities' fixing a reference rate of interest.
- 17 Here we recognize the Knightian distinction between risk and uncertainty. The future of projects to be financed is uncertain in a decentralized economy, however much individuals try to establish contracts based on rational calculus and probabilistic models.
- 18 For a general discussion on this subject see Cartelier (1987).
- 19 Schumpeter adds that: 'But he made so little headway and slipped up so often that the promising beginning was lost in the metallist current' (1963:296). On this point, we disagree with Schumpeter because the confusion between real wealth and money in Steuart's work is only superficial. This confusion is due to the lack of a developed analysis, not to theoretical confusion. In fact, as we argue in this chapter, Steuart has made clear distinction between money and commodities.

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JAMES STEUART'S
MACROECONOMIC ANALYSIS
OF MONEY, PRICE AND
OUTPUT*

Hong-Seok Yang

Introduction

Despite Steuart's many celebrated achievements,¹ it is not quite as well known how resolutely he refuted the sort of quantity theory of money shared by Locke, Montesquieu and Hume (and probably Smith after him), and how successfully he put forward his own alternative theory. These writers held that there are certain proportional relations between the quantity of money, the price level and the level of output in the monetary economy. Steuart criticized the above doctrine, which we might call a quantity theory of money, incisively as follows: 'nothing is so easy in an hypothesis, as to establish proportions between things, which in themselves are beyond all the powers of computation' (Steuart [1805] 1967:2 104).

This is not to say, however, that there was no causal relation at all between those macroeconomic variables in Steuart's analysis. He instead observed that an increment in the money supply would, without fail, lead to an increase in the demand for commodities, but that at the same time it would bring down the rate of interest. As a result of the fall in the rate of interest, more production would occur and thus the commodities supply would increase. It seems then that, as the additional supply of money might raise both the demand for, and the supply of, commodities, the level of output would definitely rise, but that the price level would still depend on which side preponderates in the commodities market. In other words, the supply of

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money would affect both the price level and the level of output *simultaneously* by way of changing the rate of interest, though there is no exact proportion between them.

In our discussion of Stuart's monetary theory, we will explore in detail how Stuart saw the relationship between money, price and output in the market economy as a whole. We will start with Stuart's analysis of interest, as it is the very gist of his theory. Basically, he treated the interest of money as an opportunity cost of its loan. Thus, in his analysis, while the rate of interest is apparently determined according to the demand and supply conditions of the loans market as their price, it is ultimately related to the rate of profit in the commodities market, as the latter constitutes the very opportunity cost of the former. After closely examining the relationship between the two alternative sources of income, as described in Stuart's *Inquiry*, we will discuss Stuart's analysis of the actual determination of the rate of interest. Next, we will move on to Stuart's criticisms of his predecessors' quantity theory of money. Beyond the criticisms, we will eventually come to Stuart's own theory. We will elucidate it in terms of a self-contained macroeconomic model. Finally, in our conclusion, we will evaluate his contributions—both critical and positive—to modern monetary economics on the basis of all that has been said thus far.

The interest of money as an opportunity cost

Stuart saw borrowing a sum of money as a specific form of credit which relates to some particular 'engagement', i.e. the obligation of paying it back in a distant period of time.² Now the question is why the debtor should pay the creditor not only the exact sum of money borrowed and lent, but also some interest on top of it at the time of fulfilling the obligation. For what is the interest paid?

In historical perspective, Stuart observed that the payment of interest as the basis of money loans accompanied the general development of trade and industry in the modern economy:

The lending of money without interest, was very common before the introduction of trade and industry. Money then was considered as a barren stock, incapable of producing fruit; and whenever the quantity of it, in any country, exceeded the uses of circulation, the remainder was locked up in treasures: in which case, the exacting of interest for it appeared unreasonable. Things are now changed: no money is ever locked up; and borrowed, the regular payment of interest for it, is as essential to the obtaining of credit, as the confidence of being repaid the capital.

(Stuart [1805] 1967:3 146–7)

Before trade and industry were established in the economy, there was not much need for money in circulation and consequently a great amount of coin was actually 'locked up'. Therefore, it was not so common in those days for creditors to ask some interest for lending money. Upon the development of trade and industry, however, there was more and more need for money in circulation. As a result, whenever the amount of coin existing in the economy could not meet its demand, one or another sort of 'paper money' based on credit had to be introduced.³ Therefore, after a certain stage in the development of trade and industry, there is always such excess demand for coin that those who lend it might just as well claim some interest on their loan to those who borrow it. Thus, it cannot be borrowed without any premium or price being given for the loan. According to Steuart, this premium or price for loan is the interest of money.⁴

In the modern exchange economy, according to Steuart, there should be a certain amount of circulating equivalents in proportion to the level of economic activities. As the level goes up or down, the quantity of money as a medium of exchange should increase or decrease accordingly. However, we cannot guarantee the quantity of money that already exists in the economy to supply no more and no less than what is required for various economic activities. To quote Steuart:

the current money of a country is always in proportion to the trade, industry, consumption, and alienation, which regularly take place in it; and when it happens that the money already in the country is not sufficient for carrying on these purposes, a part of the solid property, equal to the deficiency, may be melted down (we have called it) and made to circulate in paper: that as soon again as this paper augments beyond this proportion, a part of what was before in circulation, must return upon the debtor in the paper, and be realized anew.

(Steuart [1805] 1967:3 147)

Thus, if the quantity of money existing is less than required, then either the coins previously 'locked up' would come into circulation (or some bullion would be brought to the mint to be coined) or additional 'paper money' would be issued, being secured on 'solid properties', through its function as a means of payment. If the amount of coins is greater than the amount of paper money, then the excessive quantity of money, over and above what is necessary for circulation, must be 'stagnating' or 'regorging', as it is 'superfluous' as a means of payment, and, sooner or later, will be 'realized'.⁵ While 'paper money' represents a 'specie of credit', the interest paid by the debtors to the creditors would amount to a sort of opportunity cost of what the former owe to the latter. Therefore, according to Steuart,

Money, while it is employed in circulation, can carry no interest; the moment it lies idle to one, were it but for a day, it may be worth interest to another, who willingly pays for the use of it, when he has occasion either to buy what he wants, or to pay what he owes.

(Steuart [1805] 1967:4 321)

In short, at the macroeconomic level, the equalizing process of the quantity of money *existing* as a means of payment and that of money *required* as a medium of exchange by way of issuing ‘paper money’ or its ‘realization’ would entail the payment of interest by its issuers to its receivers for the opportunity cost of the money loans.

From the conception of the interest of money as an opportunity cost, it naturally follows that its rate presents itself as the price of money, borrowed and lent. Thus, in Steuart’s analysis, the actual rate of interest is to be determined by demand and supply in the credit market, a market for borrowing and lending money:

at all times, there is in every state a certain number of persons who have occasion to borrow money, and a certain number of persons who desire to lend: there is also a certain sum of money demanded by the borrowers, and a certain sum of money to be lent. The borrowers desire to fix the interest as low they can; the lenders seek, from a like principle of self-interest, to carry the rate of it as high as they can. From this combination of interests arises a double competition, which fluctuates between the two parties. If more be demanded to be borrowed, than there is found to be lent, the competition will take place among the borrowers. Such among them as have the most pressing occasion for money, will offer the highest interest, and will be preferred. If, on the other hand, the money to be lent exceed the demand of the borrowers, the competition will be upon the other side. Such of the lenders, as have the most pressing occasion to draw an interest for their money, will offer it at the lowest interest, and this offer will be accepted.

(Steuart [1805] 1967:3 154–5)

Just like the price of other commodities, the rate of interest is fixed by the operation of ‘double competition’, with the borrowers and the lenders of money being on either side. That is, if more money is demanded for borrowing than is offered for lending, the competition among the borrowers brings up the rate of interest; whereas, if more money is offered than demanded, the competition among the lenders brings down the rate of interest. Steuart made an illuminating analogy and contrast between the price of money and that of any other commodity. On the one hand, as the price of money should be

regulated by the 'principle of demand and competition' so as to be 'just and adequate', 'the only thing which can fix a standard for it is frequent and familiar alienation', as is the case with the price of any other commodity. On the other hand, 'the price of money, i.e. the rate of interest, is susceptible to a far greater stability and uniformity than the price of any other thing', since money is of general use, rather than of particular use, and of a uniform quality, rather than of different qualities.⁶

Interest and profit

Now, if the interest of money is an opportunity cost of its loan, where does the opportunity cost come from? Apparently, it depends on all possible uses of money, so the actual rate of interest is to be determined by the demand for and the supply of money loans. In the last resort, however, it depends on the 'profit of trade and industry', according to Steuart.⁷ The point in question becomes clear from the following passage in his *Inquiry*:

While people borrowed in order only to procure a circulating equivalent for providing their necessaries, until they could have time to dispose of their effects; and while there was seldom any certain profit to be made by the use of the money borrowed, as now, by turning it into trade, it was very natural to consider the lender in an unfavourable light; because it was supposed that his money, had it not been lent, must have remained locked up in his coffers. But at present, when we see so many people employed in providing stores of necessaries for others, which, without money, cannot be done; were the loan upon interest forbidden, it would have the effect of locking up the very instrument (money) which is necessary for supplying the wants of society. The loan, therefore, upon interest, as society now stands composed, is established, not in favour of lenders, but of the whole community.

(Steuart [1805] 1967:3 153)

While the interest of money is an essential requisite for the credit of money loans, the credit itself underpins the whole system of trade and industry in the modern economy. Without a firm and stable state of credit, trade and industry would become suffocated for the lack of circulating equivalents and, as a result, there would be neither profit for those who carry out trade and industry, nor benefit for the whole of society.⁸ Let us examine in detail the relationship between the interest of money and the 'profit of trade and industry' in Steuart's analysis.

In his *Inquiry*, Steuart postulated a theoretical relationship between the rate of interest and the rate of profit as follows:

Were the interests of trade and industry so exactly established, as to produce the same profit on every branch of them, the money borrowed for carrying them on, would naturally be taken at the same rate [on every branch of them].

(Steuart [1805] 1967:3 158)

Hypothetically, the interest rate should be in proportion to a uniform rate of ‘profit upon trade and industry’ in all the different branches of the economy. Steuart went on to discuss some obstacles to the proportional relation between them. On the one hand, for instance, the actual rates of profit might be different among different branches of trade and industry in the economy, so there might be different rates of interest in proportion to them: ‘some branches afford more, some less profit. In proportion, therefore, to the advantages to be reaped from borrowed money, the borrowers may offer more or less for the use of it’ (Steuart [1805] 1967:3 158).

On the other hand, while there are two sorts of people who demand to borrow money, those who borrow ‘to dissipate’ might be relatively less sensitive to the rate of interest, than those who borrow ‘to profit’.

Besides the class of men who borrow in *order to profit* by the loan, there is another class, who borrow *in order to dissipate*. The first class never can offer an interest which exceeds the proportion of their gains: the second class, finding nothing but want of credit to limit their expense, become a prey of usurers.

(Steuart [1805] 1967:3 158)

Thus, the demand for money loans ‘to profit’ would equilibrate the proportional relation between the rate of interest and that of profit, whereas the demand for money loans ‘to dissipate’ would disturb it.⁹

Nevertheless, Steuart continued to argue that there were still some theoretical as well as practical grounds which might allow us to suppose a certain proportional relation between the rate of interest and that of profit. Let us examine them in turn, corresponding to those obstacles discussed above. First, for the divergence of profit rates among different branches of trade and industry, Steuart clearly noted the ‘average’ concept: ‘The profit on trade would strike an average among the industrious classes; and this average would fall and rise, in proportion to the flourishing or decay of commerce’ (Steuart [1805] 1967:3 158).

Thus, while different rates of profit among different branches of trade and industry would converge into an average of them, the rate of interest would be proportional to it. Second, as to that sort of demand for money loans which is insensitive to the rate of interest, Steuart suggested what might be called a wealth effect, or even a demonstration effect, which would keep the rate of interest from being too high or too low as a result of that:

the rise of interest has so much the effect of depreciating the value of every species of solid property, that spendthrifts are quickly stripped of it, by the growing accumulation of that canker worm, interest; their ruin terrifies many from falling into the hands of the other class, who spend less than their income; these new possessors introduce, by their example, a more frugal set of manners.

(Steuart [1805] 1967:3 159)

Thus, as the interest rate goes up or down, the wealth of those who borrow money 'to dissipate' would diminish or increase in its relative value with respect to money. Therefore, insofar as their demand for money loans would be, more or less, stabilized, it could not disturb too much the centripetal force toward the proportional relation between the rate of interest and that of profit.

To sum up, according to Steuart, while the rate of interest on money loans would be, on average, in proportion to that of 'profit upon trade and industry', the proportional relation might be disturbed mainly by two factors. One is the lack of competition in the commodities market; that is, the market is not always so competitive that it could bring about a uniform rate of profit among different branches of trade and industry in the economy. The other is the existence of some demand for loans which is insensitive to the rate of interest in the credit market; that is, money is borrowed not only for production but also for consumption. Nevertheless, as long as there is any equilibration in the proportional relation between the rate of interest and that of profit, the interest of money could be said to rest on the 'profit upon trade and industry'. In this sense, the latter is the only source of opportunity cost of the former.

The rate of interest, production and consumption

On the basis of the discussions so far, we may note that, in Steuart's analysis, the rate of interest is determined by the demand for and the supply of money loans in the credit market, as their price. And there are two sorts of demand for money loans, according to their uses: one for production and the other for consumption. It is the demand for money loans for the use of production which ultimately accounts for some proportional relation between the rate of interest and that of profit. While production and consumption constitute the supply and the demand side of the commodities market, respectively, the determination of the rate of profit has to do with that of the 'current price' of commodities in that market.¹⁰ Therefore, the money loans and the commodities markets are so inseparably interrelated that they should be considered at the same time to see how the rate of interest and the level of output are to be determined in a monetary economy. Let us examine the process of their simultaneous determination in Steuart's analysis.

From the previous discussion of the two uses of money loans, we may go further to assume without any loss of generality that there are two uses of money in general, i.e. *not only loans but also balances*. As long as any use of money is supposed to incur some opportunity cost, it makes no difference whether it is self-owned or borrowed. Hence, the two sorts of demand for money correspond; that is, one to produce and the other to consume. On the one hand, while those who demand money to produce seek gains from the difference between the ‘profit of trade and industry’ and the interest of money, they need the money, either self-owned or borrowed, mainly as working capital for the production process. The greater the difference between the rate of ‘profit’ and that of interest, the greater the demand for money to produce. On the other hand, while those who demand money to consume are seen as being insensitive to the rate of interest, they want money in proportion to their consumption.¹¹ Both uses of money account for the total demand for money in the economy as a whole. Meanwhile, the actual circulation of money in the economy represents the supply side of the money market.

Next, let us turn to the commodities market. According to Steuart, the level of gross output is determined by the amount of ‘effectual demand’ in the economy. There are two component parts in the ‘effectual demand’: the consumption of consumer goods and the use of producer goods in the production process.¹² The one depends on the ‘propensity of the rich to consume’; whereas the other depends on the ‘disposition of the poor to be industrious’.¹³ If both the ‘propensity’ of the rich and the ‘disposition’ of the poor are so stable that the proportion between the two component parts of ‘effectual demand’ is constant, the amount of ‘effectual demand’ in the economy has an inverse relation to the rate of interest as one of the component parts, i.e. the use of producer goods is sensitive to the rate of interest likewise.

The process of simultaneous equilibrium of both money and commodities markets is as follows: on the one hand, while the rate of interest, as the price of money, adjusts itself in the money market, it takes part in determining the level of output in the commodities market, as it has to do with the use of producers’ goods. On the other hand, while the level of output is to be determined by the amount of ‘effectual demand’ in the commodities market, each component part of the ‘effectual demand’ generates the corresponding demand for money, i.e. to consume and to produce, which in turn plays a critical role in the determination of the rate of interest in the money market, given the amount of money circulating in the economy. After all, both markets should be equilibrated at the same time.

The equilibrium situation is also self-restoring, whenever it is disturbed for any reason. Steuart described how it might work, for instance, when the rate of interest rules too high:

when trade and industry flourish, and when a monied [moneyed] interest is formed, in consequence of the melting down of solid property, and still more in consequence of a State's contracting great debts; were the money-lenders to attempt to raise the rate of interest to the standard of spendthrift, the demands of trade, &c. would soon be cut off: the stagnation would then swell so fast in their hands, that it would in a manner choke them, and in a little time interest would fall to nothing. Whereas by contenting themselves with the standard of trade, the largest supplies (provided for the borrowers) easily find a vent, without raising the rate of interest so high as to be hurtful to any interest within the state.

(Steuart [1805] 1967:3 160)

That is to say, if the rate of interest is too high, then not many entrepreneurs would demand money for their production. It occasions a fall in the rate of interest in the money market. As a result, the greater the use of producer goods, the greater the 'effectual demand', and the higher the level of output in the commodities market. As the level of output gradually increases, the fall of the rate of interest would slow down in the money market. After all, sooner or later, the equilibrium would be restored at a lower rate of interest. Therefore, the system is stable enough, as the equilibrium situation is self-restoring whenever it is disturbed.

So far in this section, we have discussed how Steuart saw the determination of the rate of interest in a monetary economy. According to Steuart, it has to be determined simultaneously with the level of output in the economy. For the sake of simplicity, our discussion was based on a sort of fix-price model. In other words, we simply assumed the price level to be given. Before we elaborate further on Steuart's analysis of money in a flex-price model, let us briefly discuss Steuart's critical review of his predecessors on money, price and output.

Criticisms of the quantity theory of money

In his *Inquiry*, Steuart summarized Montesquieu and Hume's doctrine 'concerning the influence of riches upon the increase of prices', in the following three propositions:¹⁵

First, The prices (say they [Montesquieu and Hume]) of commodities are always proportioned to the plenty of money in the country. So that the augmentation of wealth, even fictitious, such as paper, affects the state of prices, in proportion to its quantity. Secondly, The coin and current money in a country is the representation of all the labour and commodities of it. So that in proportion as there is more or less of this representation (money), there goes a greater or less quantity

of the thing represented (commodities, &c.) to the same quantity of it. From this follows, that Thirdly, Increase commodities, they become cheaper; increase money, they rise in their value.

(Steuart [1805] 1967:2 84)

Ultimately, what is meant by these propositions is that there is always an exact proportion either between the quantity of money and price level or between the quantity of money and the level of output in the economy. We may represent it in the following equation:

$$M=1/v P y$$

where M: quantity of money

v: velocity of circulation of money (given)

P: price level

y: level of output.

That is to say, if the level of output is determined elsewhere or assumed to be constant, the price level is always in proportion to the quantity of money existing in the economy (proposition 1). If price level is determined elsewhere or assumed to be constant, the level of output is always in proportion to the amount of money existing in the economy (proposition 2). And if the quantity of money is given exogenously, there is always an inverse relation between price level and the level of output (proposition 3).

Steuart flatly rejected the above-described doctrine of the proportional relationship between money, price and output.¹⁶ The following passage from his *Inquiry*, for instance, gives us a clear and lucid illustration of what he was arguing against the quantity theory of money.

Suppose the specie of Europe to continue increasing in quantity every year, until it amounts to ten times the present quantity, will price rise in proportion? I answer, that such an augmentation might happen, without the smallest alteration upon prices, or that it might occasion a very great one, according to circumstances. Were industry to increase to ten times what it is at present, that is to say, were produce of it to increase to ten times its present value, according to the actual standard of prices, the value of every manufacture and produce might remain without alteration. This supposition is possible: because no man can tell to what extent demand may carry industry. If, on the other hand, the scale of demand could be supposed to preponderate, so as to draw all the wealth into circulation, without having the effect of augmenting the supply (which I take to be impossible), then prices would rise to ten times the present standard, at least in many articles.

(Steuart [1805] 1967:2 104)

For Steuart, on the one hand, the price level would change, if and only if there is any change in the demand and supply conditions of the commodities market: therefore, the fluctuation of the price level is far from being exactly proportional to the quantity of money existing in the economy, except by mere accident. On the other hand, *mutatis mutandis*, the level of output would vary, if, and only if, there is any movement in the equilibrium of production and consumption in the economy; therefore, the variation in the output level is far from being exactly proportional to the quantity of money existing in the economy, except by mere accident. Naturally, there is no exact inverse relation between price level and the level of output with a given quantity of money supply, either. All in all, Steuart rejected the quantity theory of money which presumed a certain (either directly or inversely) proportional relationship between money, price and output in the economy as a whole. In his analysis, then, is there no causal relation between them at all? Let us now explore in detail how Steuart saw it.

The general theory of money, price and output: a model

Criticizing the quantity theory of money mentioned above, Steuart put forward his own argument as follows:

What then will become of the additional quantity of coin, or paper money?...if upon the increase of riches it be found that the state of demand remains without any variation, then *the additional coin* will probably be locked up, or converted into plate.... As for the paper-money, so soon as it served the first purpose of supplying the demand of him who borrowed it, (because he had at that time no coin,) it will return upon the debtor in it, and become realized; because of the little use found for it in carrying on circulation. Let the specie of a country, therefore, be augmented or diminished, in ever so great a proportion, commodities will still rise and fall according to the principles of demand and competition.

(Steuart [1805] 1967:2 86)

If there is an additional supply of money in the economy, some part of it would increase the demand for commodities; whereas the rest might just stagnate and consequently bring down the rate of interest. This fall in the rate of interest would in turn make more production possible; hence, an increase in the supply of commodities. Therefore, according to Steuart, a cash injection in the economy would raise both the demand for and the supply of commodities at the same time. As a result, we could say, the level of output in the economy would certainly increase; but as far as the price level is concerned, it would depend on the demand and supply conditions of the commodities market. After all, in Steuart's analysis, while the supply of

money would affect both the level of output and the price level, there would not be any proportional relation between them since the effects of changes in the former on the latter are to be transmitted by the rate of interest.

In what follows, we will present a self-contained macroeconomic model, synthesizing what we have discussed so far. Basically, it relates to Steuart's analysis of the relationship between the supply of money, price level and the level of output in the economy as a whole. We will examine both money and commodities markets in turn to postulate some basic relations between the macroeconomic variables and to see how they would equilibrate at the same time. To begin with, let us look at the money market.

Money is an essential requisite not only for consumption but also for production. Thus,¹⁷

$$M_d/P = m_c + m_p \quad [1]$$

$$m_c = k_1 c \quad [2]$$

$$m_p = k_2 u \quad [3]$$

where M_d : total demand for money

P: price level

m_c : demand for money to consume

k_1 : constant

c: amount of the consumption of consumer goods

m_p : demand for money to produce

k_2 : constant

u: amount of the use of producer goods

On the other hand, money existing in an economy either circulates or is hoarded. In other words, the quantity of money actually circulating in the economy equals the amount of existing money less the amount of money being hoarded, while the hoarding of money might depend on the rate of interest.¹⁸ Thus,

$$M_s = M_e - M_h \quad [4]$$

$$M_h/P = h(i), h' < 0 \quad [5]$$

where M_s : supply of money (i.e. quantity of money circulating)

M_e : quantity of money existing (given)

M_h : quantity of money being hoarded

i: rate of interest.

And the demand and supply should be equal in the money market. Thus,

$$M_s = M_d. \quad [6]$$

Next, let us turn to the commodities market. In Steuart's monetary analysis, basically, production is supposed to be carried out with a view to earning net profit, i.e. gross profit less either actual or potential interest for the money employed in the production process. Therefore, the greater the difference between the rate of profit and the rate of interest, the more money is demanded for production; and, consequently, the more goods are used in the production process, the more production is carried out; while the rate of profit is dependent on price level.¹⁹ Thus,

$$y=y(u), y'>0 \quad [7]$$

$$u=u(r-i), u'>0 \quad [8]$$

$$r=r(P), r'>0 \quad [9]$$

where y: amount of production
r: rate of profit

On the other hand, the 'effectual demand' for the commodities produced consists of two components, i.e. the consumption of consumer goods and the use of producer goods in the production process, with a certain proportion between them being given. Thus,

$$d_f=c+u \quad [10]$$

$$c=p_c d_f(\text{or } u=d_p d_f) \quad [11]$$

where d_f : amount of 'effectual demand'
 p_c : 'propensity to consume' (given)
(or d_p : 'disposition to produce' (given); $p_c+d_p=1$)

Finally, the demand and supply should be equal in the commodities market. Thus,

$$y=d_f \quad [12]$$

All these equations ([1]–[12]) represent the basic relations of our model.²⁰ Let us manipulate the above basic equations to summarize them. The results are shown in Figure 16.1.²¹

$$d_f(P, i)=1/k (M_c/P-h(i)), \partial d_f/\partial P<0, \partial d_f/\partial i>0 \quad [13]$$

$$\text{where } k: \text{weighted money-balance constant; and}$$

$$y(P, i)=y(u(r(P)-i)), \partial y/\partial P>0, \partial y/\partial i<0 \quad [14]$$

From equations [12], [13] and [14], we may look closely at the equilibrium situation of the economy to find out the equilibrium level of output (y), price level (P) and interest rate (i) in the economy. That is to say, first of all, we could note that the amount of 'effectual demand' (d_f) is negatively related

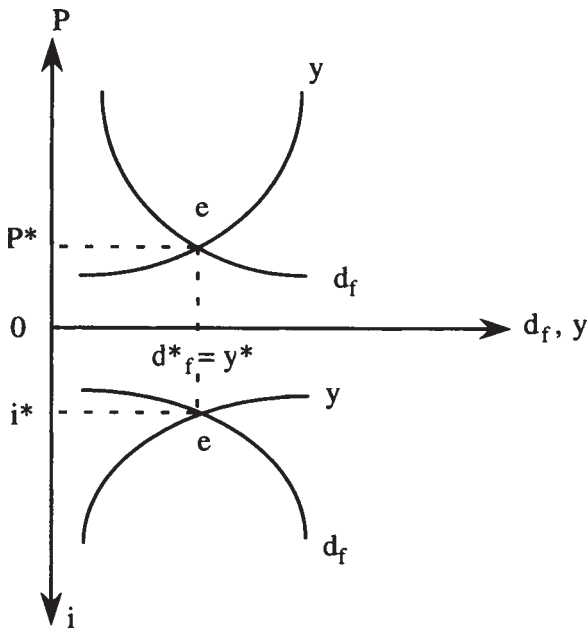


Figure 16.1

to the price level (P) in the commodities market, but positively related to the rate of interest (i) in the money market; whereas the amount of production (y) is positively related to the price level (P) in the commodities market but negatively related to the rate of interest in the money market. By combining them in each market, we could see the simultaneous determination of the level of output ($y=d_f$), price level (P) and rate of interest (i) in Figure 16.1. Now, it is evident that, in Steuart's analysis, the commodities and the money markets are so closely interrelated that the level of output, price level and rate of interest should be determined simultaneously through their respective equilibrium conditions.

Finally, let us examine what would happen to the above equilibrium situation, if there is any exogenous change in the supply of money, for example an increase in the quantity of money existing in the economy as a result of some favourable balance of trade.²² We illustrate this with Figure 16.2. If the supply of money increases exogenously for some reason, in the first place it would directly affect either the amount of consumption in the commodities market or the rate of interest in the money market, but, to be exact, both at the same time. That is to say, on the one hand, as supply exceeds demand in the money market, the rate of interest will fall; on the other hand, as more money is available than before, the amount of consumption increases, which denotes an increase of 'effectual demand' in the economy ($d_f^1 \rightarrow d_f^2$). As a result, sooner or later, the price of commodities will rise. Therefore, while the rate of

interest falls in the money market, the price level rises in the commodities market ($i^1 \rightarrow i^2$; $P^1 \rightarrow P^2$).²³ This induces more production in the economy.²⁴ As soon as production equals the consumption, both the rate of interest and the price level stop and settle down to another equilibrium situation ($e^1 \rightarrow e^2$). In the new equilibrium, the level of output and the price level are higher than before, whereas the rate of interest is lower than before. After all, the initial exogenous increase of money supply has been absorbed partly into the circulation for consumption and partly into the circulation for production in the economy.

To sum up, according to Steuart, there is no proportional relation either between the supply of money and the price level or between the supply of money and the level of output in the economy, in that the supply of money would certainly affect both the price level and the level of output *at the same time* through its influence on the rate of interest. Indeed, in his analysis these macroeconomic variables, i.e. price level, the level of output and the rate of interest, are to be determined simultaneously via the equilibrium conditions of both commodities and money markets in the economy.

Conclusion

It is interesting to note that, before Steuart, Cantillon (1697–1734) had also made quite a similar comment on Locke's quantity theory of money, as follows:²⁵

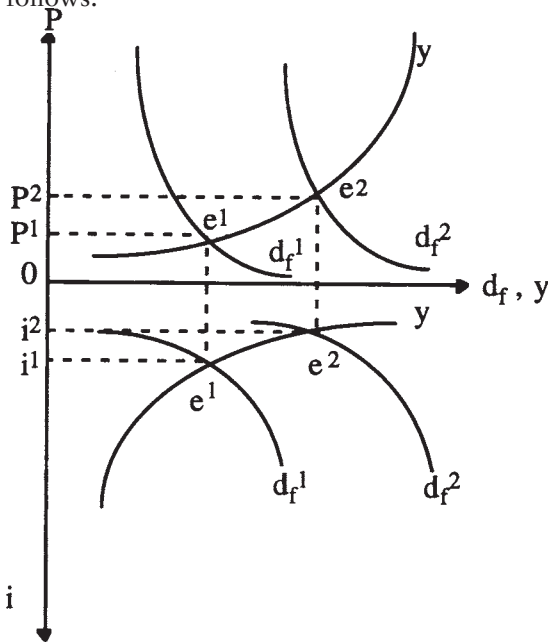


Figure 16.2

he [Locke] has clearly seen that the abundance of money makes every thing dear, but he has not considered how it does so. The great difficulty of this question consists in knowing in what way and in what proportion the increase of money raises prices.

(Cantillon [1775] 1959:161)

Nobody ever since, however, has criticized the old theory and presented his own in such a systematic manner as Steuart.²⁶ For him, insofar as no definite relationship between money, price and output could be found, they must depend on some other factors than each other. As the system of analysis is under-determined, so to speak, some further equations and variables should be introduced into it, so as to get rid of any unnecessary degree of freedom. One of these additional variables—in fact, the most important of them all—is the rate of interest, which is to be determined *endogenously* within the system.²⁷

We may call Steuart's explanation of the simultaneous determination of the key macroeconomic variables—i.e. price level, the level of output and the rate of interest—the *consumption-production theory of money*, in the sense that, according to this theory, money is to be demanded not only for consumption but also production and that it thus affects both the demand and supply side of the commodities market. In this system of explanation, money is not neutral. The point in question is the core of what Steuart argued against his predecessors' unfounded 'hypothesis'. After all, the present analysis of Steuart's theory of money reveals that, before the tradition of the so-called classical dichotomy (between the real and the monetary economy) was established, only to dominate for a century and half or so in the economic literature, there was already a more general and sophisticated alternative. It seems that in the history of any discipline a refined but complicated theory may be defeated by a crude and simple one.

Notes

- 1 The revised version that appeared in 1805 is used in this chapter.
- 2 Steuart defined credit in general as a 'well established confidence' between the creditor who gave it and the debtor who receives it, in what relates to the performance of their engagements. For a detailed discussion of credit and interest in Steuart's analysis, see Yang (1994: chap.6, sect. 3.1).
- 3 In this context, what is meant by 'paper-money' covers all sorts of bills and notes, including convertible banknotes. According to Steuart, what makes a difference between 'paper' or 'symbolical' money and coin or 'real' money is that the one relies on credit, whereas the other does not. Indeed, 'paper money' is nothing but a symbol by which credit is reckoned, or itself a 'species of credit'.
- 4 For more about Steuart's historical account of the relation between credit and interest, see Steuart ([1805] 1967:3 151–4).

- 5 By the 'realization' of money, Steuart meant 'tuning it into some shape whereby it may produce an income' or the 'purchase of some kind of income with it'. The 'realization' could be possible for both kinds of money, because they commonly serve as a store of value: in the case of coin, it may be converted into bullion, whereas, in the case of 'paper-money', the process of 'realization' would involve the payment of interest by the debtors to the creditors presented in the paper, unless it is paid up in coin. Cf. Steuart ([1805] 1967:3 147–9, 4 320–1.) For a detailed discussion of the functions of money assumed in Steuart's economics, in relation to the above two kinds of money, see Yang (1994: chap.6, sect. 1.3).
- 6 See Steuart ([1805] 1967:3 155–6).
- 7 Steuart sometimes called the 'profit of (or upon) trade and industry' the 'profit upon alienation'. In any case, it is different from the 'profit upon capital' in the later literature. However, this does not mean that in Steuart there was no concept of capital, as either monetary or physical means of production, and no notion of some remuneration for capital advanced in the production process. On the contrary, he seems to have been well aware of the role of capital in the production process and to have actually had in his mind a clear notion of profit upon capital. For instance, see Steuart ([1805] 1967:1 224–5, 396–7; 2 76, 111). It is the different focuses of their respective economic analyses which explain why Steuart did not and those after him did categorize the 'profit upon capital' as a distinct income of its own. Cf. Yang (1994: chaps 3 and 5, including the appendices, and chap. 6.)
- 8 Meanwhile, in the above-quoted passage, Steuart alluded to the two kinds of demand for money loans, i.e. for consumption and for production.
- 9 In other words, according to Steuart, people demand to borrow money for two purposes, i.e. to produce or to consume. These are different in nature; that is, the one is sensitive to the rate of interest and the other is insensitive to it. We will come to this point again later on.
- 10 For Steuart's theory of value and distribution, see Yang (1994: chap. 3). Throughout this section, we will assume that the prices of commodities are to be given or fixed. Consequently our discussion here might be called a fix-price model. After examining Steuart's criticisms of his predecessors' quantity theory of money, we will discuss his monetary theory on the basis of a flex-price model, in which the level of prices is to be determined endogenously.
- 11 Steuart described the relation between the demand for money to consume and the amount of consumption as the 'proportion of circulating money with respect to the desires of consumers to consume' (Steuart [1805] 1967:2 53).
- 12 For Steuart's theory of output based on the notion of 'effectual demand', see Yang (1994: chap. 4). Here in this context, both components of 'effectual demand', i.e. the consumption of consumer goods and the use of producer goods, are expressed in the aggregate monetary terms. Given the price level in the economy, it is assumed, there is sufficient production capacity. Therefore, the level of output is solely determined by the amount of 'effectual demand' in the economy.
- 13 Steuart ([1805] 1967:2 53). As the use of producer goods in this context may be regarded as investment, the so-called saving-investment relation in Keynes's 'principle of effective demand' could be embraced in Steuart's analysis. In fact, Steuart's notions of the 'propensity to consume' and the 'disposition to produce' seems to bear some analogy to Keynes's 'propensity to consume' and 'propensity to save', and the two important components which the former's 'effectual demand' and the latter's 'effective demand' have in common are consumption

and investment. (There is another parallel in their conception of the demand for money; i.e. they both assume the two sorts of demand for money, one sensitive and the other insensitive to the rate of profit.) Basically, however, the respective theories of output refer to different concepts of output: one to *gross* output and the other to *net* output or national income. For a comparison between Stuart's and Keynes's theories of output, see Yang (1995; 1994, app. to chap.4). For a rigorous formalization of Stuart's monetary analysis, see Yang (1994: chap. 6). Sen once remarked that

the most surprising thing, however, is that even Lord Keynes, whose monetary ideas have some resemblance to Stuart's, should fail to mention him, although he rakes up from oblivion a fairly large number of earlier writers who professed views similar to his.

(Sen 1947:19)

- 14 From the equilibrium condition of the total demand for and the total supply of money in the economy, on the one hand, we may derive a positive relation between the rate of interest and the level of output in the money market, as there is an inverse relation between the rate of interest and the demand for money, given the supply of money. On the other hand, from the determination of the level of output in terms of 'effectual demand', we may derive an inverse relation between the rate of interest and the level of output in the commodities market, as there is an inverse relation between the interest of money and the use of producer goods, given the proportion between the two components of 'effectual demand'. The result is pretty similar to the IS-LM analysis, originally introduced by Hicks (1937). That is, the relation between the level of output and the rate of interest in the commodities market bears some analogy to the IS curve, while the one in the money market bears some to the LM curve. In the discussion of Stuart's monetary analysis, however, there is no explicit saving-investment relation, and we need neither the 'schedule of the marginal efficiency of capital' in the commodities market nor the 'liquidity-preference schedule' in the money market. Cf. n. 13 above.
- 15 It seems that Stuart referred to Montesquieu's *Spirit of the Laws* (1748) and Hume's *Political Discourses* (1752). As the sort of quantity theory of money which he criticized could be traced back to Locke's *Considerations* (1691) and *Further Considerations* (1695), Stuart himself noted:

Who was the first author of this doctrine, I cannot say. I find it in Mr. Locke, and in the *Spectator* for the 19th of October 1711; but they have been beautifully illustrated by Monsr. de Montesquieu; and Mr. Hume has extended the theory, and diversified it prettily in his political discourses.

(Stuart [1805] 1967:2 84)

Meanwhile, among others, Skinner gave an interesting account of Stuart's critique of the quantity theory, concentrating on both its purpose and content. According to him, however, it still leaves us with a question: 'how do we integrate the concept of hoarding and the rate of interest with the quantity theory?' (Skinner 1967:289.). As we shortly find out, the present examination of Stuart's analysis of money, price and output will give a certain answer to this question. In fact, our model to be set up later will be firmly based on Stuart's very integration of the concept of hoarding and the rate of interest with the quantity theory of

money. For Stuart's monetary analysis in general, Sen's work (1947) is quite illuminating. He pointed out that those few who have written about Stuart have 'merely tried to evaluate him in the light of Smithian doctrines and have almost completely failed to appreciate the true significance of his economic, especially monetary, ideas, which were on an absolutely different plane'. Also, cf. Vickers (1959: chap. 12) and Akhtar (1979). For some general background of the eighteenth-century pre-Smithian quantity theory of money, see Monroe ([1923] 1966: Book V, chap. XXX).

- 16 For the details of Stuart's criticisms of the quantity theory of money, see Stuart ([1805] 1967:2 78–104).
- 17 We assume here that the wages of labour are paid at the end of the production process and that, therefore, the money employed as working capital in the production process is to be spent on producer goods. And we further assume, for the simplicity of modelling, that the demand for money to produce is in proportion to the amount of use of producer goods in the economy: i.e. $mp=k_2 u$, in parallel with the demand for money to consume, which is in proportion to the amount of consumption of consumer goods, i.e. $mc=k_1 c$. As a matter of fact, Stuart himself sometimes considered the 'proportion of circulating money with respect to the desires of consumers to consume' (k_1) and the 'proportion of circulating money with respect to those of the industrious to produce' (k_2) to be constant. Cf. Stuart ([1805] 1967:2 53). Meanwhile, these assumptions, together with those regarding the supply of money which we will soon make below, allow us to see how Stuart succeeded in 'integrating the concept of hoarding and the rate of interest with the quantity theory of money'. Cf. n. 15 above.
- 18 As far as Stuart was concerned, the supply of money consists of the quantity of money actually circulating, rather than merely existing, in the economy. The difference between the two quantities of money, according to him, is mainly due to the existence of 'paper-money', hoarded coin and foreign trade. Meanwhile, Stuart sometimes ascribed the disproportion between money, price and output to this difference between money in circulation and that in existence. Cf. Stuart ([1805] 1967:2 93–104). Nevertheless, the point in the present analysis is how the supply of money, i.e. the quantity of money in circulation, could affect the price level and the level of output in the economy. According to Stuart, if the quantity of money existing is greater than that of money circulating in the economy, it becomes either 'locked up' or 'realized'. Meanwhile, if the latter is greater than the former, either some of those coins previously 'locked up' must come back into circulation or some additional 'paper-money' must be issued. Indeed, as we notice from his analysis of the interest of money in the previous section, while the continuous process of issuing and 'realizing' 'paper-money' accounts for the payment of interest for money loans, the individual potential creditors' decisions of either hoarding or lending money depend on the rate of interest. Thus, the amount of money hoarded in the economy depends on the rate of interest in the money market. Meanwhile, we assume the quantity of money existing in the economy to be given out of the model.
- 19 According to Stuart, both the wages of labour and the 'profit upon trade and industry' are determined, *ex post*, after the price of commodities is determined. For a detailed discussion of Stuart's theory of value and distribution, see Yang (1994: chap. 3).
- 20 Since the above system of equation has twelve unknowns and equations, respectively, it is potentially solvable.
- 21 From the demand side of the economy, on the one hand,

$$M_s = Md$$

[from 6]

$$M_c - P h(i) = P (m_c + m_p) \quad \text{[from 1, 4 and 5]}$$

$$\begin{aligned} &= P (k_1 c + k_2 u) && \text{[from 2 and 3]} \\ &= P k d_p; k = k_1 p_c + k_2 d_p && \text{[from 10 and 11]} \end{aligned}$$

As we assume p_c and d_p to be given outside of model, k is also a constant; for

$$k = k_1 c / (c + u) + k_2 u / (c + u) = k_1 p_c + k_2 d_p$$

(We may call k the weighted money-balance constant). Therefore,

$$d_i(P, i) = 1/k (M/P - h(i)), \quad \partial d_i / \partial P > 0, \quad \partial d_i / \partial i > 0 \quad [13]$$

On the other hand, from the supply side of the economy,

$$y_s(u) = y(u(r(P) - i)) \quad \text{[from 7, 8 and 9]}$$

Therefore,

$$y(P, i) = y(u(r(P) - i)), \quad \partial y / \partial P > 0, \quad \partial y / \partial i < 0 \quad [14]$$

We may regard this as a sort of monetary production function.

- 22 As a matter of fact, to discuss fully the relation between money, price and output in an open economy, the analysis of foreign exchange, in general, and the rate of exchange and the balance of payments, in particular, must be premised (Yang 1994: chap. 7). The above discussion of the effects of an exogenous change in the supply of money on price level, the level of output and the rate of interest is intended to serve a double purpose. That is, on the one hand, it would help us to understand clearly how Steuart's analysis of money differs from his predecessors' who held on to the quantity theory, as discussed earlier in this section; on the other hand, it might at the same time give us a chance to observe how the equilibrium situation could be restored in the economy, whenever it is disturbed by any impact exogenous to our model of his analysis. We will rely on a diagrammatic presentation rather than differential calculus.
- 23 In fact, we may note that, as the price level rises, the supply of money in real terms would slightly diminish. And, as a result, the increase of 'effectual demand' would be a bit hampered; whereas the falling-down of interest rate would occur more slowly.
- 24 While the augmentation of production would certainly entail some additional increment of 'effectual demand', the latter in its turn would give rise to some extra demand for money to produce.
- 25 In fact, a few historians of economic thought have already cited the same passage quoted above. On this, for instance, Skinner remarked that 'Cantillon thus set out *how* changes in the supply of money affect price levels and in so doing endeavoured to elucidate the causal sequences involved'. Moreover, according to him, 'precisely the same is true of Hume's essay *Of Money*, taken as a whole, as of Steuart's *Principles* (Skinner 1967:227). Also quoting the same passage, Blaug observed that Cantillon's stress was rather on the fact 'that an increase in M [the quantity of money] will not only raise the level of prices but will also alter the structure of prices, depending upon the initial recipients of the new cash and their

- relative demand for goods'. He called the differential effect of a cash injection, as governed by its nature, the 'Cantillon Effect' (Blaug 1985:20–3).
- 26 It is rather well known that many mercantilists before Steuart had advocated keeping more money in circulation so as to enhance the level of activity in the economy. (Hutchison 1988). Their arguments, nevertheless, seem not to have been based on the same ground as Steuart's. For the former, the rate of interest would never have played such a crucial role in the transmission mechanism between the monetary and the real economy, as for the latter.
- 27 Steuart's analysis of money, price and output, discussed in this chapter, underlies the whole of his macroeconomics. In fact, the model we established in the previous section could be further expanded to explain his case for the functional or active finance, which in turn could not be better understood by any other means than a self-contained macroeconomic model (Yang 1994: chap. 8, sect. 3).

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Works of James Stuart

This bibliography of Stuart's works contains books and pamphlets, as well as published notes and letters; for instance, items in the well-known Caldwell papers listed below are in the published series by the Maitland Club. It also lists the various editions and translations of each work. A specific number has been assigned to each text and a letter added for each additional edition and translation. At the end of some of the entries, we have added references to well-known bibliographies and reference books: the Bibliothèque Nationale de France catalogue, the Goldsmiths' Library of Economic Literature catalogue, the *Bibliography of Economics* by Henry Higgs (1935), the Kress Library of Business and Economics catalogue, the McCulloch's (1845) classified catalogue to *The Literature of Political Economy*, the Scottish economic literature bibliography by William R.Scott (1911), and the guide to the archive of *Economists' Papers 1750–1950* by Paul Sturges (1975). The abbreviations used to identify these books are listed in Appendix C. Appendix A shows how our numbers correspond with the numbers used in the index of the Goldsmith's-Kress collection. The works of this joint library are available on microfilm for easy consultation. For convenience, Appendix A also gives the microfilm reel number for each of the documents.

- 1 (1737) Letter to Sir Thomas Calderwood, Seville, 5 March 1737, in Chamley (1965a:127–9).
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- 3 (1756) Letter to William Pitt, 26 December 1756, in *Correspondence of William Pitt, Earl of Chatham*, London, 1840.
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 9 (1767) *An inquiry into the principles of political œconomy: 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*, London: A.Millar and T.Cadell, 2 vols: vol. 1:v–xvi+[12 (contents)]+639; vol. 2: [14 (contents)]+646+[12 (index)]+[1 (errata)]. *BN* n° *E. 781–2, 4°V. 14247; *Goldsmiths* n° 10276; *Higgs* n° 3968; *Kress* n° 6498; *McCulloch* p. 11; *Scott* n° 504a.

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- 9k French: 1789–90, attributed to Étienne-François de Sénovert, *Recherche des principes de l'économie politique, ou Essai sur la science de la police intérieure des nations libres*, Paris: Didot aîné², 5 vols. BN n° *E 2688–2692, R24577–24581.³
- 9l German: 1913–4, *Untersuchung über die Grundsätze der Volkswirtschaftslehre*, Jena, s.n., 3 vols.
- 9m Japanese: 1967–80, tr. by Nakano Tadashi, *Keizaigakugenri*, (Books I–II), Tokyo: Iwanami Shoten, 3 vols (based on 1767 edition).
- 9n Japanese: 1980–2, tr. by Kato Kazuo, *Keizaigakugenri*, (Books I–II), Tokyo: Tokyodaigakushuppankai, 3 vols (based on 1805 edition).
- 9o Japanese: 1993, tr. by Izuka Masatomo, Okuda Satoshi, Takemoto Hiroshi, Nakanishi Yasuyuki, Yanagita Yoshinobu, Watanabe Kunihiro and Watanabe Keiichi, supervised by Kobayashi Noboru, *Keizai no Genri* (Books III–V), Nagoya: Nagoyadaigakushuppankai (based on 1805 edition).
- 9p Japanese: 1998, tr. by Izuka Masatomo, Kato Kazuo, Takemoto Hiroshi and Watanabe Kunihiro, supervised by Kobayashi Noburu, *Keizai no Genri* (Books I–II), Nagoya: Nagoyadaigakushuppankai (based on 1805 edition).
- 10 (1767) Letter to David Hume, Coltness, 10th November 1767, in *Letters of eminent persons addressed to David Hume*, Edinburgh: William Blackwood and Sons, 1849, 174–6.
- 11 (1769) *Consideration on the interest of the County of Lanark in relation to I, agriculture; II, the price of subsistence; III, the maintenance of the poor; IV, the wages of servants, labourers and manufacturers; V, the connexion and common interest of the land and trade; VI, the consequences of the new canal; VII, the present state of land carriage and of public roads; VIII, and to the policy and practice observed in markets*. By Robert Frame, writer in Dalsersf, Glasgow, 75 pp. *Goldsmiths* n° 10512; *Higgs* n° 4562; *Kress* n° 6689; *Scott* n° 506.

Other editions:

- 11a *Works* (1805:5 279–345), under the title 'Considerations on the interest of the County of Lanark in Scotland; which (in several respects) may be applied to that of Great Britain in general'.

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- 12 *Observations on Dr Beattie's Essay on the nature and immutability of truth*, Coltness in *Works* (1805:6 1–39); followed by a letter from Dr Beattie to William Cumine, Esq.⁴
- 13 (1772) *A collection of miscellanies relative to coinage in India*, 73 pp. *Goldsmiths* n° 10918 ('Endorsed in manuscript on the fly-leaf, "Collection made by Sir Jas Steuart for His own information previous to his disertation for the East India Compy: of London on the Bengal Coinage in the year 1772"'); *Higgs* n° 5521 ('privately printed, may be unique').
- 14 (1772) *The principles of money applied to the present state of the coin of Bengal: being an inquiry into the methods to be used for correcting the defects of the present currency; for stopping the drains which carry off the coin; and for extending circulation by the means of paper-credit. Composed for the use of the Honourable the East India Company*, [London], 91 pp. BNn° 4° Nt. 168; *Goldsmiths* n° 10919; *Higgs* n° 5522; *Kress* n° 6904; *McCulloch* p. 11.

Other editions:

- 14a Second edition, 107 pp. *Goldsmiths* n° 10920; *Higgs* n° 6905.
- 14b In *Works* (1805:5 1–119).
- 15 (1773) 'A state of the revenue of Scotland from Lame Authorities—to be corrected', *Selections from the family papers preserved at Caldwell*, Glasgow, Maitland Club, 1854, vol. 71, part 2, vol. 2, item cclxxvii, 223–9.
- 16 (1775) 'Observations on the new bill for altering and amending the laws which regulate the qualifications of freeholders'. *Higgs* n° 6512; *Scott* n° 530.

Other editions:

- 16a In *Works* (1805:5 267–77).
- 17 (1775) 'Sir James Steuart: nine letters on the American conflict, 1775–1778', ed. David Raynor and Andrew S. Skinner (1994), *William and Mary Quarterly*, 3rd series, vol. 51:755–76.
- 18 (1777) 'Lettre de Sir James Steuart sur le prix du blé, 14 octobre 1777', in Chamley (1965a:140–2) (in English).
- 19 (1777. 'Sir James Steuart's answer to Mr. Francis' letter', (dated, Coltness, 12 September 1777), in *Works* (1805:5 135–70); answer to 'Letter from Mr. Francis, one of the Supreme Council of Bengal', Calcutta, 20 November 1776, in *Works* (1805:5 121–33).
- 20 (1779) *Critical remarks and general observations upon a book, entitled System of nature or, Laws of the physical and moral world; by M.de Mirabeau*. In *Works* (1805:6 43–82).
- 21 (1779) *Dissertation concerning motives of obedience to the laws of God*. In *Works* (1805:6 83–90).
- 22 (1779) 'An address to the gentlemen freeholders of Scotland', *Edinburgh Evening Courant*, 4 October.
- 23 (1783) *A dissertation on the policy of grain, with a view to a plan for preventing scarcity, or exorbitant prices in the common markets of England*, published by

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his son, London: W.Strahan and T.Cadell. *Goldsmiths* n° 12431.20; *Higgs* n° B.654; *Scott* n° 574.

Other edition:

23a In *Works* (1805:5 345–77).

24 (1790) *A plan for introducing an uniformity of weights and measures within the limits of the British Empire*, ed. by his son Sir J.Steuart, London: J.Stockdale, 64 pp. BNn° V.53193; *Goldsmiths* n° 14110.

Other edition:

24a In *Works* (1805:5, 377–415).

25 (1805) *The works, political, metaphysical, and chronological, of the late Sir James Steuart of Coltness, Bart. now first collected by General Sir James Steuart Bart. his son, from his father's corrected copies. To which are subjoined anecdotes of the author*, London: T.Cadell and W.Davies. *Goldsmiths* n° 19010; *Higgs* n° B.4987; *McCulloch* p. 11.

Contents:

Vol. 1: Table of contents, i–xxiv; *Inquiry* (1767): Book I and II (chaps I–XXIII), 1–444.

Vol. 2: Table of contents, i–xx; *Inquiry* (1767): Book II (chaps XXIV–XXXI) and III (part I), 1–441.

Vol. 3: Table of contents, i–xx; *Inquiry* (1767): Book III (part II) and IV (parts I–III), 1–467.

Vol. 4: Table of contents, i–vii; *Inquiry* (1767): Book IV (part IV) and V+index, 1–416.

Vol. 5: Table of contents, v–vii; ‘The Principles of money applied to the present state of the coin of Bengal’ (1772), 1–119; ‘Letter from Mr. Francis, one of the Supreme Council of Bengal’, 121–33; ‘Sir James Steuart’s answer to Mr. Francis’s letter’ (1777), 135–70; ‘A dissertation upon the doctrine and principles of money applied to the German coin’ (1761), 171–265; ‘Observations on the new bill for altering and amending the laws which regulate the qualifications of freeholders’ (1775), 267–77; ‘Considerations on the interest of the county of Lanark in Scotland; which (in several respects) may be applied to that of Great Britain in general; in relation to I, agriculture; II, the price of subsistence; III, the maintenance of the poor; IV, the wages of servants, labourers and manufacturers; V, the connexion and common interest of the land and trade; VI, the consequences of inland navigation; VII, the present state of land carriage and of public roads; VIII, and to the policy and practice observed in markets’ (1769), 279–345; ‘A dissertation on the policy of grain, with a view to a plan for preventing scarcity, or exorbitant prices in the common markets of England’ (1783), 345–77; ‘A Plan for introducing an uniformity of weights and measures over the world; and for facilitating the more speedy accomplishment of such a scheme within the limits of the British empire’ (1790), 377–415.

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Vol. 6: Table of contents, v–viii; ‘Observations on Dr Beattie’s Essay on the Nature and Immutability of Truth. The second edition, printed at Edinburgh, 1771’ (1771), 1–39; ‘Letter from Dr. Beattie to William Cumine, Esq.’ Aberdeen, 25 April 1776, 40–2; ‘Critical remarks and general observations upon a book, entitled, System of Nature or, Laws of the Physical and Moral World; by M.de Mirabaud, perpetual secretary, and one of the forty members of the French Academy. In two parts. London, 1770’ (1779), 43–82; ‘Dissertation concerning the motive of obedience to the laws of God’ (1779), 83–90; ‘Apologie du sentiment de Monsieur le Chevalier Newton sur l’ancienne chronologie des Grècs, contenant des réponses à toutes les objections qui y ont été faites jusqu’à présent’ (1757), 91–318; ‘Answers to M.des Vignolles’ dissertation upon Sir Isaac Newton’s chronology’, 319–58; ‘Anecdotes of the life of Sir James Steuart, Baronet; born 1712;—died 1780’, 359–91.⁵

Other editions:

25a Repr. 1967, New York: A.M.Kelley.

25b Repr. 1995, *Collected Works of James Steuart*, London: Routledge Thoemmes Press, with a seventh volume of *Critical studies*.

26 (1810) *The principles of banks and banking of money as coin and paper with the consequences of any excessive issue on the national currency, course of exchange, price of provisions, commodities and fixed incomes*, London: J.Davis. *Goldsmiths* n° 20122;

This is a condensation in 4 books of the original work, and follows the text of the *Works* rather than the edition of 1767. Book 1 of the *Principles of Banks* corresponds to Book 3, Part 1 of the original; Book 2 to Book 3, Part 2 with the omission of chapters 30, 32, 35 and 37–39; Book 4 corresponds to Book 4, Part 3. In addition to the omission of whole Parts or chapters, the text was severely edited [...]. The title page does not indicate who the original editor might have been.

(Steuart 1966, Skinner (ed.), Appendix D, 741)

Other edition:

26a Second edition, 1812, London, Sherwood: Neely, and Jones: 314 pp. *Goldsmiths* n° 20550; Higgs n° B.6062.

Books on Steuart: monographs and collected works

Among the sixteen books listed in this section, there is one 37-page booklet (Kobayashi 1967), four collections of texts (Blaug 1991, *Collected Works* vol. 7 1995, Schefold 1993a and Tortajada 1995a) and seven representing the works of the Japanese school. There are therefore only four monographs devoted to James Steuart (Chamley 1963a and 1965a, Sen 1957 and Yang 1994). We will begin with these last four in the chronological order of their publication.

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In 1947, Samar R. Sen was among the first few to publish a paper devoted to Steuart. He explains (1957:v) that his book was completed by 1947. Sen's work is a general introduction to Steuart, divided into nine chapters: biography, philosophy, methodology, theory of population and agriculture, value and trade, money and banking, public finance, economics of control, and Steuart and India. Despite the numerous historiographic discoveries and the many new interpretations (both of Steuart and the history of economic thought in general) which have been made in the last forty years, Sen's book remains a good introduction to the writings of Steuart. Its main assets are great clearness of presentation and extensive quotation from the primary literature. In addition, Sen puts Steuart's ideas in their biographical context. However, the book does have a strong element of hagiography, and tries to demonstrate too often that Steuart pre-empted several theses which were proposed far later in different contexts. In particular, just as in his 1947 paper, Sen multiplies the parallels between Steuart and Keynes, without denying influence or the real historical filiation from simple sameness of thesis.

Paul Chamley, like Andrew S. Skinner, is one of the foremost specialists on Steuart. At the start of the 1960s he published two important works on Steuart. The first (1963a) is a study of Steuart's influence on the formation of Hegel's economic thesis. Although Hegel never mentions Steuart's name (except for a comment on the *Inquiry* that has been lost), Chamley shows that Hegel is more indebted to Steuart than to Smith, Say or Ricardo (to whom he does refer) for the elaboration of his social theory. In addition to the clarification of these historical links, Chamley's work has brought to light the importance of Steuart's philosophy in the development of his economic ideas. The second (1965a), a collection of some of Steuart's documents and unpublished texts, remains a precious tool for students of Sir James.

The most recent and voluminous work devoted to Steuart (Yang 1994) is an 'analytical interpretation of Sir James Steuart's *Inquiry*'. Yang's objective is to reconstruct Steuart's works in modern economic terms. The work should therefore not be seen as a study on the history of economic thought, but as a modern translation of Steuart's book. It is divided into eight main chapters, several of them with appendices, which put the writings of Steuart in their historical context.

In Japan the literature about the economics of James Steuart is extensive, and most of it is in Japanese. Here we mention only the most important and up to date Japanese references. Kawashima (1972) has made a detailed study of Steuart's *Principles* and provides a useful bibliography of Japanese as well as Western literature. Tazoe (1990) claims that Books I and II of the *Principles* have a dual structure. Book I adopts a developmental (historical) method that derives from the fundamental category of 'industry' in the development of modern society. In Book II, Steuart analyses economic development from a simple form (barter) to a complex form (monetary). Takemoto (1995) regards Steuart's 'modern society' as consisting of an 'industrious society' and a 'national economy'. Ohmori (1996) emphasizes that Steuart is not an 'economist of control' but that he aims to maintain the workability of markets with a minimum of regulation. Kobayashi (1977, 1988, 1994) stresses that Steuart's *Principles* are the first system of political economy and explains why such a work has been forgotten by historians of economic thought. This idea is developed in his introduction to the new *variorum* edition of Steuart's *Principles* (1998). Tracing a portrait of Adam Smith, Kobayashi confronts and compares (in English) Smith's and List's theories with those of Steuart's (1967:2).

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Finally, Blaug (1991) and the seventh volume of the *Collected Writings*, 1995 edition, reprint some previously published texts which form part of the secondary literature on Steuart, while Schefold (1993a) is a reprint of the *Inquiry* accompanied by a number of texts, including two original texts by Skinner, Redman and Starbatty, a reprint of a chapter of Hutchison's *Before Adam Smith*, an introduction by Schefold (1993b), a bibliography, a chronology and an 'Epigrammatisches zu Sir James Denham Steuart' (a collection of citations on Steuart by Eltis, Meek, Schumpeter, Skinner, Stark, Wickers, *et al.*). Finally, Tortajada (1995b) presents some papers issued from a workshop on Steuart.

- Blaug, Mark (ed.) (1991) *Pioneers in Economics*, vol. 11, *David Hume (1711–1776) and James Steuart (1712–1180)*, Aldershot: Edward Elgar. Includes reprints of Akhtar (1978 and 1979), Eagly (1961), Low (1952 and 1954), Meek (1958), Skinner (1962, 1962–3, 1965b and 1981), Stettner (1944–5), and Taylor (1957).
- Chamley, Paul (1963a) *Économie politique et philosophie chez Steuart et Hegel*, Paris: Dalloz.
- (1965a) *Documents relatifs à Sir James Steuart*, Paris: Dalloz.
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- Kobayashi, Noboru (1967) *James Steuart, Adam Smith and Friedrich List*, Tokyo: Science Council of Japan, Division of Economics, Commerce and Business Administration.
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- (1988) *Kobayashi Noboru Keizaigakushi Chosakuchu X—J. Steuart Shinkenkyu* (The Works on History of Economic Thought of Kobayashi, Noboru X—A New Study on J.Steuart), Tokyo: Miraisha.
- (1994) *Saisho no Keizaigaku Taikei* (The First System of Political Economy), Nagoya: Nagoyadaigakushuppankai.
- Ohmori, Ikuo (1996) *Steuart to Smith—'Komyona Te' to 'Miezaru Te' no Keizairiron* (Steuart and Smith—Economic Theories of 'skilful hand' and 'invisible hand'), Kyoto: Mineruvashobo
- Schefold, Bertram (ed.) (1993a) *Vademecum zu einer klassischen Synthese von Theorie, Geschichte und Politik: James Steuart, An Inquiry into the Principles of Political Economy*, Düsseldorf: Verlag Wirtschaft und Finanzen. Contains Hutchison (1988), Redman and Starbatty (1993) and Skinner (1993), with an introduction by the editor (Schefold 1993b).
- Sen, Samar R. (1957) *The Economics of Sir James Steuart*, London: Bell and Sons.
- Takemoto, Hiroshi (1995) *Keizaigaku Taikei no Sosei—James Steuart Kenkyu* (The Formation of a System of Political Economy—A Study of James Steuart), Nagoya: Nagoyadaigakushuppankai.
- Steuart, Sir James (1995) *Collected Works of James Steuart*, London: Routledge Thoemmes Press, 1995 (reprint of 1805 edition of the *Works*), vol. 7, *Critical Studies*, which includes reprints of Akhtar (1978 and 1979), Anderson and Tollison (1984–5), Chamley (1962 and 1963a), Eagly (1961), Eltis (1986), Feilbogen (1889), Hutchison (1988), Skinner (1962 and 1981) and Taylor (1957).

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- Tazoe, Kyoji (1990) *Sir James Steuart no Keizaigaku* (The Economics of Sir James Steuart), Tokyo: Hassakusha.
- Tortajada, Ramón (ed.) (1995a) *Study Workshops on Sir James Steuart*, Special Issue of *Cahiers de sciences économiques*, vol. 17, Grenoble: Université Pierre Mendès France.
- Yang, Hong-Seok (1994) *The Political Economy of Trade and Growth: An Analytical Interpretation of Sir James Steuart's 'Inquiry'*, Aldershot: Edward Elgar.

Articles and sections of monographs

In this part of the bibliography we present papers and sections of monographs which contain a substantial amount of information on Steuart or a section specially devoted to him. In this summary of the bibliography's contents, we regroup the works by them, to facilitate research.

Several biographical texts on James Steuart are available. Some years after his death, biographical notes and portraits were published, notably by David Steuart Erskine (1791 and 1792), Steuart's nephew. James Steuart's son, General James Steuart added biographical information by G.Chalmers into the *Works* (1805) when he edited them. Later, Kippis (1842) also wrote a biography. Watt (1888) offers a brief portrait of Steuart and his place in history. Taylor (1957), based on Steuart Erskine (1792), Chalmers (1805) and Kippis (1842) made a first 'critical' biography of Steuart. Skinner (1966a) is the most complete text on the subject, but should be complemented by Chamley (1967) for some points of precision. In his 1966a volume and in the *variorum* edition of Steuart's *Inquiry* (1998), Skinner presents a new version of the biography stressing the Jacobite aspect to Steuart's life. In a different context, Raynor and Skinner (1994), in their introduction to nine of Steuart's unpublished letters concerning the American War of Independence, present a summary of Steuart's life of Steuart in relation to this conflict. Fradin (1995) discusses the relationship between Steuart and the impact of the war on continental thought.

There are many general presentations of Steuart's works, among them those which put them in their historical context. Cunningham (1891) views Steuart in connection with the Scottish Enlightenment, and the Scottish economic authors of this period. Skinner (1962, 1965a and 1965b) shows that the most determining influence on Steuart associated with the Scottish Enlightenment was perhaps the Scottish Historical School. Cabrillo (1988) analyses the *Essay on Commerce* as a source of Steuart's doctrine. Davie (1967) explores the relationships between Scottish and English thought in this context, and Skinner (1990) puts Steuart's work in the context of the whole Scottish Enlightenment, particularly in parallel with Hume and Smith. King (1988) presents Steuart as an 'economic exile', together with H. George, Hobson, Major Douglas or Schumacher, for instance, that is to say, one of nine heretics in the history of economic thought. Watanabe's paper (1994) consists of an extensive bibliography of Japanese works on Steuart until 1992.

Some texts offer a general, internal analysis of Steuart's theories. Andrew Skinner (1962-3, 1966b, 1981, 1993) are very detailed in this respect. An entire chapter of Hutchison's (1988) *Before Adam Smith* is devoted to Steuart, and shows admirably how some oppositions (theoretical, political, methodological) are permanent in the history of economic thought. Johnson dedicates a whole chapter to Steuart in his

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Predecessors of Adam Smith, and considers the *Inquiry* to be ‘the best summation of pre-Smithian British economic theory’ (Johnson 1937:234). Kobayashi (1992), Diatkine (1993) and Schefold (1993b) are other general introductions, besides the reviews of Hutchison (1967) and Vickers (1970), which present Steuart very briefly. Finally, Akhtar tries ‘to render Sir James Steuart’s macroeconomic ideas into a concise form’ (Akhtar 1979:283), and summarises the entire *Inquiry* in mathematical form.

Some encyclopedias and dictionaries devote entries to Steuart, and present brief, clear introductions to his life and works: Ingram (1899), Fraser (1934), Stark (1968), Blaug (1986) and Eltis (1987). Similarly, textbooks and treatises on the history of economic thought introduce Steuart in the general context of this economic history: Cossa (1893), Sewall (1901), Boucke (1921), Monroe (1923), Cannan (1929), Haney (1949), Neff (1950), Schumpeter, who wrote ‘there is something un-English (which is not merely Scottish) about his views and his mode of presentation’ (Schumpeter 1954:176), Letwin (1963), Blaug (1985), Spiegel (1991) and Roll (1992). Finally, we can mention the various anonymous comments on his works made at the time of their publication (1757, 1767a, 1767b, 1767c, 1806a, 1806b, for instance).

Several individual studies show the importance of philosophical and methodological issues in the understanding of Steuart’s works. Grossman (1943) shows that Steuart, as well as Richard Jones and Karl Marx, swim against the tide of the classics in their approach to economic thought, which takes the form of an ‘evolutionist revolt.’ Macfie (1955) considers that Scottish economic thought is singular because of its philosophical or sociological approach and that Steuart belongs to this school of thought. Skinner (1965b), in connection with his thesis claiming that Steuart was especially influenced by the Scottish Historical School (1962), shows the importance of methodology for Steuart, for instance with regard to the problem of induction and deduction. Ohmori (1983) also shows the importance of methodological foundation in the development of Steuart’s works, as does Karayiannis (1992), who situates Steuart in the history of economic methodology in its pioneering stages, from Petty to Smith.

Growth and development theories are one of the important aspects of Steuart’s works, and several authors have analysed them. Low (1952) exposes the controversy on economic development stemming from Hume’s thesis, a controversy in which Steuart was involved at the end of the eighteenth century. The papers by Eagly (1961 and 1965) concern the ‘aspiration effect’, that is to say the explanation of a population’s production of more goods than necessary for its subsistence, because people aspire to a higher standard of living. He relates this explanation to those advanced by Melon, among others, on the contribution of luxury goods to economic growth. Faure-Soulet (1964) proposes a synthesis of Steuart’s growth theory, by putting it in connection with the idea of progress, characteristic of the Enlightenment, and Doujon (1994 and 1995) also connects Steuart’s theory with the elaboration of a more general concept of progress at the time. Questioning the political consequences of growth, Hirschman (1977) shows that this reflection on the history of economic thought comes from Steuart and Montesquieu, who corresponded during Steuart’s continental exile. Barber (1975) introduces Steuart in the context of the history of the relationship between British economic ideas of development and Indian affairs, Steuart having been an advisor for the East India Company. In a different spirit, Akhtar’s (1978) article proposes ‘a formal outline of Steuart’s growth model’, and is in fact an analytic reconstruction of a part of Steuart’s system, in mathematical terms.

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In Yang (1996) the demand theories of Steuart and Keynes are compared. Steuart's approach of demography, connected to his theory of economic development and growth, which has influenced Malthus, is analysed by Strangeland (1904), and to a greater extent by Stassart (1959), who brings to light both the originality of Steuart and his adherence to the thinking of his time.

Another very important part of Steuart's system is spatial notions, and more particularly international relationships. In his presidential address before the Regional Science Association, Beckmann (1981) brings to light Steuart's role as a precursor of land use theory, indicating that this makes him a predecessor of von Thünen. Dockès (1969) analyses Steuart's spatial economy in depth in a study devoted to location and urbanization questions in the history of economic thought. Viner (1937) situates Steuart in the general development of mercantilist theories of international trade, in a similar way to Johnson (1932), who does the same in relation to theories of 'export of work'. Wasserman and Ware (1965) indicate that Steuart distinguished balance of trade from balance of payments, an important distinction for the subsequent history of economics. Skinner (1962–3) presents Steuart's theory of economic development in connection with the principles of international trade. Perlman (1990) considers Steuart's analysis of what is now called the 'absorption approach to the balance of payments'.

Steuart's place in the pre-Smithian history of monetary theories is explored by Monroe (1923) and Vickers (1959), in a similar way to Karayiannis (1991a), who identifies Steuart's contribution in a controversy 'in the late pre-Smithian economies' concerning coin and paper money. Low (1954) compares the visions of Smith and Steuart concerning the rate of interest, and Skinner (1967) exposes Steuart's theories in relation to the development of the quantity theory of money.

Linked with monetary theory, the theories of value, prices and markets is a subject of great interest to Steuart. Deleplace (1994) discusses the originality of Steuart's theory of change. Rebeyrol (1982) and Taouil (1995) analyse the place of the market in Steuart's theory, and the central role that the merchant occupies in his system. Zampolini (1985) shows the importance of class-division for the coherence of Steuart's system. Karayiannis (1991b) and Tortajada (1995b) analyse the theories of value, prices, markets and money, in Steuart's works, and the relationships between them, and Karayiannis (1994) studies the relationships between the statesman and the market, which he calls the 'managed market'. Following the same line of argument, Karayiannis (1988) analyses Steuart's theory of distribution, and shows that it has to be rehabilitated.

Often considered the last of the mercantilists, Steuart's relationship with Smith, or with the classics in general, has been analysed in depth. Feilbogen (1889) is a study on the links between Smith and Steuart, showing in what regard Smith is indebted to Steuart, and asserting that the subsequent supremacy of Smith over Steuart is attributable to lack of clarity in the presentation of Steuart's ideas. Anderson and Tollison (1984–5) are opposed to the orthodox point of view, which they claim has prevailed since the 1940s, that Smith was merely the 'rationalizer' of the *laissez-faire* thought already dominant in this period. Thus, according to them, Smith did not have to make a mercantilist straw-man to expose his ideas because James Steuart was already playing the straw-man role. They suggest that 'in the latter's absence, the emphasis in *Wealth* might have been significantly different' (467). Rashid criticizes Anderson and Tollison's paper, suggesting that 'Steuart was respected and used, *not*

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for a well established commercial economy like England, but primarily for less developed regions like Scotland or Bengal' (1985–6:851). Anderson and Tollison (1985–6) maintain that 'Steuart was a significantly less sophisticated writer than many of his "mercantilist" predecessors' (853). Chamley (1965b) continues his study on the filiation from Steuart to Hegel, in the light of more complex researches on Hegelian literature, and the result of his own works on Steuart (Chamley 1965a). According to Chamley, Smith's contribution had been marginal in comparison with Steuart's in Hegel's economic thought. Hutchison (1978 and 1988) also throws some light on the relationship between Steuart and Smith, as does Perelman (1983), who contextualizes Smith's and Steuart's works on primitive accumulation, and shows that Steuart's contribution was seminal in this area.

One of the topics where mercantilism and the classics are the most opposed is economic policy and more generally the economic role of the state. Stettner (1944–5) clarifies the role of public debts in Steuart's system, and makes a severe judgement on Steuart's contribution to this topic. Meek (1958), like Sen (1947), see Steuart as a pioneer of the economics of control. Eltis (1986) underlines the important role of the 'enlightened statesman' in the management of a corporate state, in contrast with the economic failures of a liberal system. Khalil (1987) puts Steuart's ideas on the role of the State and the statesman in the context of modern public choice theory. Redman and Starbatty (1993) analyse continental influences on Steuart in the elaboration of the role which he attributed to the statesman, showing in particular the level of abstraction reached in the statesman concept, in contrast with the analysis of the statesman as a tyrant. Skinner (1988) analyses the important interactions between theoretical complexities and proposals of economic policy in Steuart. Urquhart (1996) insists on the importance of the statesman in Steuart's representation of commerce.

The role that Steuart gave to the State is one of the characteristics that allows several authors to connect Steuart and Keynes. In the article that formed the basis of his 1957 book, Sen (1947) exposes the various correspondences that exist between theories and policy proposals in Steuart and Keynes. Chamley (1962), surprised that Keynes never mentioned Steuart's name, tries to show that the former has had an influence on the latter, at least indirectly via Malthus. According to Chamley, Keynes behaved as Smith had done: he did not mention his name but honoured his ideas. Lambert (1963) is persuaded that Keynes did not read Steuart, and that he would have known him only through Malthus, to which Chamley (1963b:106) retorts that since Keynes knew Malthus well, it would have been impossible for him to remain deaf to his source. Lutfalla (1967), in the light of Foucault's concept of *epistémé*, echoes the discussion between Chamley and Lambert. He considers that we cannot compare Keynes and Steuart: they lived at different times, and their theories, despite certain similarities, are different. Blaug (1985) has the same opinion. Finally, Hutchison (1978 and 1988) questions in depth the meaning of the parallels between the two authors, and the more general question of the permanence of debates in the history of economic thought.

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Notes

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Articles and books have appeared between the time this bibliography was prepared and its actual publication. They have been taken into consideration as far as possible (editor's note).

- 2 The Bibliothèque Nationale copy of this German translation of the *Principles* consists of five volumes with erratic pagination and dating, although they are presented in one and the same binding. Neither the *National Union Catalogue* nor the Bibliothèque Nationale catalogue mention the name of the translator, but it is generally attributed to C.F.Schott.

The first volume (208 pages plus the author's Preface, the *Privilegium* and the editor's Foreword, which are not paginated) corresponds with Book I of the *Principles* in twenty-one chapters. The title page bears the date 1769, the *Privilegium*, signed Johann Gottlieb Lenser, is dated 4 July 1768 and the Preface, by the editor J.G.Cotta, is dated 9 April 1769. In his Foreword the editor points out that the author's Preface, which does not appear in this first issue, will be published with the second book.

The second volume (464 pages plus the non-paginated editor's Foreword) is more complex. It corresponds with Book II of the *Principles* and consists of thirty-one chapters. The title page bears the date 1785, although the Foreword is dated 23 April 1770. Only the first thirty chapters are mentioned in the table of contents at the beginning of the volume. Because of the size of the book, the thirty-first, and last, chapter, which summarizes all the others, is appended to the succeeding fascicle, as stated in the Foreword. In the copy we consulted it is at the end of the other chapters with a specific title page, but without a break in pagination.

The third volume has no editor's Foreword. It consists of two separate sections, each with its own page numbering. Together they form Book III of the *Principles*. The first section (156 pages) is dated 1770. It corresponds with Part I of Book III, where Steuart deals with 'The Principles of money deduced, and applied to the coin of Great Britain'. The second fascicle (148 pages) bears the

date 1787 on the title page. This is the second part of Book III, where the question 'Of Money and Coin' is discussed in eight chapters.

The fourth volume, which corresponds with Book IV, also consists of two fascicles, each with its own numbering. The first (280 pages) is dated 1771. It consists of Book IV, Part I, 'Of the interest of money', in nine chapters, and Part II 'Of Banks', in thirty-nine chapters. The second fascicle (228 pages) which is dated 1772, has a (non-paginated) editor's Foreword dated 29 August 1772. It contains Part III ('Of Exchange', in five chapters) and Part IV ('Of Public Credit', in ten chapters) of Book IV.

The fifth volume consists of a single fascicle (225 pages followed by a non-paginated Index). The latter has no title page and no Foreword, and hence no mention of the date. It corresponds with Book V of the *Principles*, in fourteen chapters. The title page of this fifth book, dated 1772, with the related Foreword (29 August 1792) is in fact in the fourth volume, just before the title page of the second fascicle of Book IV of the *Principles*.

The *National Union Catalogue* mentions for this translation: Tübingen: J.G. Cotta, 1769–72, 'volume 3 has 2 parts; each part has special title-page and separate paging'. Le Graese (*Trésor des livres rares et précieux*, 1865) mentions: Tübingen 1769–72, 6 vols, in 8°. The book at the Bibliothèque Nationale is what is called a 'composite copy', that is, a *work pieced together* on the basis of several editions. (This information has been kindly communicated to us by Mme Lesage, librarian at the Bibliothèque Nationale, to whom we wish to express our gratitude.)

By referring to the whole of this information, we may, to my mind, put forward two complementary hypotheses about the way in which this translation was published.

The first hypothesis is that it was published in fascicles (which was commonly done at the time, as illustrated by the publication of Diderot and d'Alembert's *Encyclopédie* in France). As a result, the editor wanted each of the fascicles to be as coherent as possible, as he explains in his successive forewords. Each fascicle, with its own paging, corresponds with one book or one (or two) complete parts of a book. The reader would buy the fascicles in which he was interested, and would see to the binding himself. As it happens, the Bibliothèque Nationale copy altogether follows the spirit of the time. The binding bears the words *CARPÉ 1851*, but we cannot tell whether this means the re-doing of an old 'restoration' or the 'restoration' of the work as it is available now. The binding was made with an eye to compose the volumes in accordance with the book-by-book structure of Steuart's *Principles*, where each volume corresponds with only one Book. An exception is the obvious binding mistake, which relegated the title page and the table of contents of the fifth and last book to the middle of the fourth book.

The second hypothesis is that there were several editions of the *Principles* at Cotta's. The most plausible date of the first publication, considering the indications in the copy we examined, as well as other files and bibliographies, appears to be 1769–72. The later dates (1785 and 1787) probably correspond either with reprints, or with putting back unsold fascicles on the market and changing the date of the title page to lend it a more recent appearance, which was current practice with publishers at the time. I wish to thank Christian Rentzsch of the

BIBLIOGRAPHY

- University of Grenoble II, who was kind enough to translate all these forewords from the German.
- 3 There is an existing edition of the same translation, with the same printer-publisher, of volumes 1 and 4 of the *Principles*, with an identical print, but dated 1792. A copy of this edition is preserved at the Bibliothèque interuniversitaire Cujas in Paris. This copy is like the one J.G.Cotta had published in Germany a few years earlier. The second and fourth volumes of the *Principles* have been put up for sale. In the second volume, Steuart analyses the fixing of prices on the market, and subsequently adds some elements regarding his conception of money. This second volume corresponds in essence with Book II of the *Principles*. The fourth volume consists of the first three parts of Book IV, which are 'Of the Interest of Money, Of Banks' and 'Of Exchange'. This new edition at this date is hardly surprising. It corresponds with a time when economic debates in France were very heated, both on the question of markets (liberalism against the law of the maximum) and on the subject of coins, with the aim of breaking with the monetary system of the *Ancien Régime* to build up a system where money would no longer be ideal, but established on the most solid basis: the land itself. (Cf. on this subject the works of Manuela Albertone.)
 - 4 This edition bears the sub-title: 'The second edition, printed at Edinburgh, 1771.' This suggests the existence of a first edition. K.Watanabe doesn't agree with this interpretation. Using the Chalmers *Anecdotes...*(1805, 6 384) he formulates two remarks. First, the words '*The second edition...*' concern the *Essay* of Dr Beattie probably used by Steuart for his *Observations*. Secondly these *Observations* had been written in 1775 'without any purpose of publication'. Their edition in Steuart's *Works* (1805) seems to be the first posthumous publication.
 - 5 There are some discrepancies on Steuart's birth date. Chalmers (1805:6 362) in his *Anecdotes...*indicated 'this great political œconomist was born, in the city of Edinburgh, the 21st of October (N.S.) 1712', Mark Blaug (1991) has used this indication in his recollection of papers on Steuart. Andrew Skinner, with Walter Eltis, pointed out that the Memorial erected by Steuart's son in Westminster Abbey and the *Lives of Eminent Scotsmen* (1872) give this date as 10 October 1713. This last date is used in this book.
 - 6 We owe this information to A.S.Skinner.