“Texto para discussão

280

Steuart’s critique of Hume’s quantity theory

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Setembro 2016

Instituto de Economia UNICAMP”

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1 Introduction

Steuart's criticism of Hume and Montesquieu's version of the quantity theory of money, as well as of Hume's price-specie-flow mechanism, is located in chapters XXVIII (*Circulation considered with regard to the rise and fall of the Price of Subsistence and Manufactures*) and XXIX (*Circulation with foreign Nations, the same thing as the Balance of Trade*) of Book II (*Of Trade and Industry*) of his **An Inquiry into the Principles of Political Economy.** Observations on money and prices that collide with the quantity theory precepts can be found all over the work, especially in Book III (*On Money and Coin*), but the bulk of Steuart's overt criticism to Hume's hypotheses on money and prices is located in Book II, which raises a preliminary question: why have these comments preceded the specific development of monetary topics, in Book III?

There are three possible responses to this question, two of them directly provided by the **Principles** text itself. First, in the *Introduction* to Part I of Book III, Steuart notes that *"... the reader will have observed that the last chapters of the preceding book ... have been writ with a view to introduce the subject of money*". (Steuart, 1767, p. 523). These chapters include the criticism of Hume and Montesquieu. Steuart adds: *"I thought it better to anticipate some principles by connecting them directly with those of trade, than to introduce this part of my subject as a new treatise"*. (Steuart, 1767, p. 524). That is, money is connected to trade. These sorts of 'anticipations' are frequent all along the text. To remain in the domain of money, the first definition of money is provided in chapter VI of Book I (*Of Population and Agriculture*), that has scarce bearing on money and monetary problems. Many comments on public debt are anticipated in books II and III, despite the existence of a special section dedicated to the subject, in Book IV. These 'anticipations' comprise illustrations, theoretical insights that precede the specific development of some matters, and even indispensible complements. In fact, how to comment on

* First draft

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Texto para Discussão. Unicamp. IE, Campinas, n. 280, set. 2016.

‘trade and industry’ without introducing money, when Steuart’s definition of trade implies both ‘merchants’ and exchange ‘for an equivalent’?

The complex methodological foundations of the **Principles** provide a second possible response to the question. Fortunately, Steuart inserts notes and disquisitions on method in many passages of his treatise. The Introduction to Book I contains the first methodological claim: the author explains that, although he aims at a *“... clear deduction of principles…”* (Steuart, 1767, p. 4), applications are envisaged, *“... in order to avoid abstraction as much as possible”* (Steuart, 1767, p. 4). Steuart adds that “*Every supposition must be considered as strictly relative to the circumstances presupposed;…”* (Steuart, 1767, p. 5), adverting that principles shall be illustrated by examples. Ponderings of this sort, spread throughout the text, show that the combination of principles, illustrations, emphasis on specific circumstances that lead to the validation (or invalidation) of pure principles, is a characteristic of the work.[1] Not to mention the fact that the enormous collection of advices to the ‘statesman’ necessarily brings afloat a variety of policy issues, such as debasement, duties on coinage, external trade, adequate taxes. The treatment of Hume’s quantity theory shares this general status, in the sense it combines theoretical principles with economic policy orientation.

This conclusion, although associated to the widely debated methodological character of the **Principles**, leads us to a third, and not so acknowledged, point, that is the proper context and object of Steuart’s digressions on money and prices, when he presents his forceful comments on Hume and Montesquieu. We will return to the structure of Book II, but let us anticipate that Steuart’s criticism to the quantity theory complements some issues that are nuclear to his system, namely ‘balance of work and demand’, ‘balance of wealth’, ‘circulation’. ‘Balance of work and demand’, as well as ‘balance of wealth’ and its ‘vibrations’, are typical Steuartian themes. Yet, ‘circulation’ is a traditional late seventeenth and eighteenth century political economy theme.

According to Steuart, circulation is *“... the successive transmission of money, or transferable commodities, from hand to hand, and their return, as it were in a circle, to the point from which they set out”* (Steuart, 1767, p. 374). This definition is conducive to a debatable late seventeenth and eighteenth

(1) On the fundamentals of Steuart’s method, among others Skinner (1966); Skinner (1965); Skinner (1981); Kobayashi (1999); Urquhart (1999) and Hutchison (1988).

century issue, the adequate proportion of money in circulation. On this respect, Steuart says:

> *He [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, the purchase of it; … either to check prodigality and hurtful luxury, or to extend industry and domestic consumption…* (Steuart, 1767, p. 375).

The above sentence combines the 'just proportion' of money to trade with prodigality, luxury, industry, consumption; topics that, in their interconnections with circulation, underlie Steuart's treatment of the 'vibrations of the balance of wealth'.

Besides, in order to formulate hypotheses on the relation between money and prices, Steuart had to put forward a theory of prices. This theory, that lies on the role of demand and competition, and on the distinction among markets (according to the sort of people and merchandises involved), and internal/external demand, necessarily made an imprint on his comments on Hume's quantity theory.

From what has been exposed, to situate Steuart's comments on Hume and Montesquieu in the ambience of Book II may contribute to the understanding of his approach to prices; in other words, the relation between money and prices should be considered, first of all, a matter pertaining to 'trade and industry'. The paper will follow this suggested point of reference. In accordance, and after this introduction, section 2 will present Steuart's view on demand, prices, circulation, 'balance of work and demand', and 'balance of wealth', while section 3 will summarize his comments on Hume and Montesquieu. These two sections will be eminently descriptive, in an attempt to capture the spirit and content of Steuart's criticism. Section 4 will collect, in Steuart's treatment of debasement, coinage, external trade, arguments that add new angles to his monetary analysis, qualifying his perception of the relations between money and prices. In section 5, a synthesis of the main points, advancing possible conclusions.

It should be stressed that the paper holds the perspective that a recapitulation of Steuart's criticism of the quantity theory can be instrumental to a better understanding of his system. Our goal is to revise Steuart, by means of his critique to Hume; and not to make a comment on Hume's monetary theory, having Steuart as the point of reference. Our target is Steuart, not Hume, how appealing a revision of the latter, having his Scottish critic as a point of reference, might seem.

2 Industry and trade, demand, money and prices

2.1 Demand

According to Steuart, trade cannot be dissociated from two elements, the exchange of wealth or work, and the intermediation by merchants. Moreover, trade implies industry and furthers industry, which is *"… the application to ingenious labor in a free man…"* (Steuart, 1767, p. 166). In Steuart's imagery, direct transactions (bartering) exist when trade is in its 'infancy'. Book I assumes in many passages trade to be in its 'infancy'. However, whenever industry, impelled by the taste for 'superfluity', emerges as the dominant surplus production system, human wants are supplied by organized trade. It is in this situation that 'demands' supersede 'wants'. In a synthesis:

> *We cannot say that trade will force industry, or that industry will force trade; but we may say that trade will facilitate industry, and that industry will support trade. Both … depend upon a third principle, to wit, a taste for superfluity; in those who have an equivalent to give for it. This taste will produce demand, and this again will become the main spring of the whole operation* (Steuart, 1767, p. 172).

In order to avoid ambiguities, Steuart clarifies:[2]

1. Demand applies to merchandises, and not to money. It does not exist a 'demand for money'.[3] Those who have merchandises sell them in order to get money, envisaging the acquisition of other merchandises.[4] The possession of money by trading parties stimulates 'reciprocal demand'.

2. Demand may be simple or composite, according to the existence of one or multiple 'interests' in the demanders' side. Different 'interests' produce 'competition'.

(2) The following ordering does not follow Steuart's own ordering, in BII, chapter 2.

(3) However, in Book IV, part I, ch. IV, in the analysis of the principles that determine the rate of interest, 'demand for money' is openly assumed.

(4) The same formula was used by Law: "Goo*ds are exchanged by money*" (Law, 1704, p. 56), meaning that men sell goods – exchange them for money – in order to buy other goods.

3. 'Great' or 'small' are qualifications that apply to the quantity demanded, or to the number of demanders habitually active in the considered market.

4. 'High' or 'low' demand depends on the competition among buyers. Great demand (see 3 above) is associated to great sales; high demand entails great prices. Hikes and falls in prices are associated to sudden and non-expected demand changes, or to moves relatively to the 'common rate'. On the other side, whenever supply unexpectedly fails, there will be competition among buyers and then 'compound demand'. As much as irregular demand impacts prices, supply failures propel prices. It is in this sense only – sudden moves – that it may be assumed that demand raises prices.

5. Besides, and as a conclusion, *"Demand has not always the same effect in raising prices"* (Steuart, 1767, p. 174). Steuart distinguishes two pairs: demand for 'necessaries for life' and for 'things indifferent'; demand by direct consumers and by merchants. Demand by merchants envisages reselling and profit, while ordinary demand envisages consumption. The rationale of these demands, as well as their effects upon prices, is entirely different.

As mentioned, trade implies money. According to Steuart, in a free society, men subject themselves to work hard because they are enticed by the surplus of other producers, in agriculture and in manufacture. Having as point of reference such a Humean framework, Steuart concludes that it is the taste for superfluities, and not the mere existence of money or metals, that impels circulation. A lesson many times repeated by Steuart is that there was no lack of money in antiquity: the existent money was simply pooled in treasure chests.[5] Steuart's pondering on the amassing of wealth in antiquity serves as an introduction to circulation, and brings to the fore an ample, and suitable to the context, definition of money – as well as a preliminary mention of credit.

2.2 Trade, money, value, prices

Money is *"... the common price of all things: it is a proper equivalent in the hands of those who want, perfectly calculated so supply the occasion of*

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(5) *"The poor opinion we entertain of the riches o four 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."* (Steuart, 1767, p .177).

those who, by industry, can relieve them" (Steuart, 1767, p. 177). In a trading society, money is represented by the merchant, who also personifies credit.[6] In Stuart's system, such a decisive personage – the merchant – embodies a modern holly trinity: *"To the consumer, he appears as the whole body of manufacturers; to the manufacturers, as the whole body of consumers; and to one and the other class his credit supplies the use of money."* (Steuart, 1767, p. 177-78).

Trade and commerce impel a revolution. Apart from the general advantages associated to them – reduction of transactions costs, incentives to specialization, a thrust to the efforts of every laborer –, they end up *"... supported and extended among men, from a principle of general utility to every individual, rich or poor, to every society, great or small"* (Steuart, 1767, p. 179). In Steuart's broad historical approach, trade, money, and merchants, propelled the division of labor inherent in modern society, creating a proper ambience for the dominance of self-interest. On the other hand, commerce implies money and credit. Steuart does not conceive of an exchange system without money, or of a monetary economy not anchored in credit.[7] Trade implies a credit economy – in this point, as we will see, a striking difference with Hume.

Value, a category that complements trade, mediates the relations between trade and prices. Prices are composed of two elements, 'real value' and 'profit upon alienation'. The 'real value' of a merchandise includes the expenditure of labor, considering average standards of application and quality, the value of subsistence and indispensible equipment (average standards also), and the raw material and/or elaborated inputs implied. The price of the manufactured goods cannot be inferior to their real value. Any surplus over the real value means a manufacturer's profit. Thus, and once prices depend on demand, the manufacturer's profit is dependent on demand, too. A sudden decrease in demand impacts prices and profits negatively, prices always preserving real value as its inferior boundary. Although his is not a theory of profits, in the proper sense, Steuart's malleable conception of profit assumes it

(6) *"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"* (Steuart, 1767, p. 177).

(7) Tortajada (1999) emphasizes the interconnections among trade, money, and credit, in Steuart.

as a sort of markup, able to accommodate any difference between 'real value' and prices.[8]

It is suggestive that, immediately after presenting this sort of price-value-demand theory, Steuart examines two applications. One concerns foreign trade and external demand; the other, forms of competition. The approach to external trade and to competition is, in this context, primarily historical: the development of trade between a trading and manufacturing state and a primitive nation, producer of natural products. Steuart's illustration, its historical character notwithstanding, is revealing of price mechanisms operating in other circumstances too.

The illustration goes as: in the beginning, the sellers of natural products are not aware of the 'real value' of their goods, thus allowing the traders to reap great profits. Big profits stimulate demand, generating competition among traders and a reduction of profits. On the other side, and once sellers of natural products become accustomed to manufactured products, they will end up tied up to the traders. Anyhow, and since the primitives will have to keep an export effort in order to fulfill their new desires, we now have two, instead of one, trading nations.

The consequences upon demand will depend on the competitive conditions. Provided the importers of natural products do not compete, prices will keep high and profits will stay at a maximum. Steuart also considers the social structure of the primitive nation: if it is characterized by a handful of wealthy men and a multitude of poor laborers, the wealthy consumers will consent in paying high prices for the manufactured goods.

Another possibility is that competition among sellers of manufactured export goods leads to a decrease in prices. In this case, the enlargement of markets requires lower prices and, consequently, lower profits in a 'proportionate' sense – 'proportionate' apparently meaning a squeeze in the unitary profit margin. Even in this case, profits may be higher 'upon the voyage'. At any rate, prices do not adjust naturally or impersonally. They depend on decisions, as much as on market structures associated to the nature of the goods implied, not to mention the social structure. All these elements considered, prices will depend on the elasticity of demand, in the case of luxury goods; and, in general, on the relation between global profits and volume of

(8) Tortajada (1999) called attention to the mark-up element in Steuart's theory of profits.

trade. Of course, a strict competition among sellers in both sides ('double competition') will bring prices down.

Double competition seems to represent Steuart's optimum. It occurs when *"... it takes place on both sides of the contract at once, or vibrates alternately from one to the other. This is what restrains prices to the adequate value of the merchandize"* (Steuart, 1767, p. 196). Although double competition is not seen as an exception, but as the normal state of trade, simple competition among buyers and among sellers cannot be excluded. Here we penetrate in the territory of forms of competition, or market structures, that lies on the nature of the involved goods, and on the structure and behavior of the two sets, buyers and sellers.

Although competition applies to the two sides of the exchange contract, Steuart considers it not to be so 'striking' among sellers. In general, sellers are traders, whose profit expectations vary, but whose behavior is ultimately rational. Consumers are more influenced by capricious behavior, at least in what refers to non-necessaries. A fair, for instance, is described as a contest between the avarice of the buyers and the coldness and ambitions of the sellers. Prices oscillate between boundaries that are compatible with the profits of both buyers and sellers, producing a continuous 'vibration'. Transactions between merchants are different from transactions between sellers and consumers. Transactions involving essential or superfluous goods imply different adjustments and limits to the 'vibration' of prices, once, as Steuart insists upon, the price of subsistence is always limited by the restricted 'faculties' of the buyers.

All these possibilities show that Steuart considers it impossible to advance a general theory of prices. The following passage, although extracted from another context – the debates on coinage, in Book III – represents a good synthesis of the cautious, and case by case, approach to prices:

> *It is impossible to lay down a distinct theory for the rise and fall of the prices of all sorts of commodities in a nation such as Great Britain. All that can be said with certainty, is, that competition on the part of the consumers will make them rise, and that competition on the part of furnishers will make them fall* (Steuart, 1767, v. 2, p. 12).

2.3 Balance of work and demand

The only general norm concerning value is the one that establishes 'real value' as the floor for prices. Essentially, Steuart's value-price-demand theory forms a substratum to the development of an all-encompassing concern, the 'balance of work and demand', a sort of social equilibrium, essential to modern (trading) societies, and to be permanently considered by the 'statesman'.[9] External trade may produce imbalances. 'Vibrations' of prices, too.

The impact of external trade over the basic social balance, that involves agricultural and manufacturing activities, is the major concern. Steuart is especially attentive to the possibility of unsettling the 'balance of work and demand' via external trade. Once the advantages of exporting manufactures elevate the price of labor, at the same time diverting labor from agriculture to industry, either the supply of agricultural products react, by means of innovation, or the difficulties in attracting laborers will end up disrupting the social structure. The final result will be consumption sophistication and scarcity of food, reduction of productive laborers, and expansion of the contingent of servants, which represents a 'dead weight' over consumption.

The solution is 'double competition', which produces supply and demand equilibrium and soft 'vibrations' in the balance of work and demand. However, 'simple competition' on either side cannot be excluded. Steuart analyzes many possibilities, considering alterations in both sides – work and demand -, and fears the sliding down into a state of permanent 'decline', a destiny few trading states have escaped from.[10]

There are several reasons for the destruction of the 'balance of work and demand'. As general causes, interruptions in the process of gradual 'augmentation' of population, changes in patterns of consumption, barriers to the increase of wealth in general. Restrictions in food supply are the basic factor. In any case, cheap food is the only means to assure competitive exports.

Steuart has in view a permanently delicate balance between agriculture and manufacture. Besides the non-negligible impact of exports, progress in manufactures may provoke a drainage of agricultural labor and a non-desirable elevation of the price of labor, producing as a long term result a decrease in the supply of food. The optimum state is the one that conduces to soft 'vibrations' in the 'balance of work and demand', and also to slow 'augmentations' in

(9) Sen (1957) is one of the few interpreters of Steuart's money and price theory to pay attention to the importance of 'balance of work and demand' and 'balance of wealth'.

(10) *"... in order therefore to preserve a trading state from decline, the greatest care must be taken, to support a perfect balance between the hands employed in work and the demand for their labour"* (Steuart, 1767, p. 224).

population, standards of living, and wealth. 'Double competition' is the not so secret way out of these entanglements, typical of trading societies; nevertheless, 'simple competition' is many times around the corner.

It is worth noting that Steuart's judgment of external trade (and external demand) has a double character. On the one hand, external demand may improve internal industry and increase wealth, contributing to erect barriers that will block latecomers' contest.[11] On the other hand, there are limits to external demand, since new competitors will ultimately dispute markets, threatening old-established exporters and reducing their import capacity. A zero sum game in the international trade arena is not out of question:

> *The beginning of trade with the strangers will prove just as favourable to the vibration of their balance, by augmentation, as it was formerly to the home traders, and now every augmentation of those, must imply a diminution to the others* (Steuart, 1767, p. 234).

Besides, competition is not always dominant in external trade, since old traders tend to resist to reduce their 'consolidate profits', once high profits are incorporated into their normal horizon. High prices are hardly compressible. 'Consolidate profits' are the almost unbeatable foe of once successful traders. Newcomers are harsh,[12] and self-correction by old traders is difficult, because before this happens, *"... her rivals will have profited of the golden opportunity, and during the infatuation of the traders, will, even by their assistance, have got fairly over the painful struggle against their superior dexterity"*. (Steuart, 1767, p. 236).

Luxury and extravagance become the destiny of once successful traders. The decadence, or lack of dynamism, is a process that harms the 'balance of work and demand', putting an end to the step by step 'augmentations' envisaged as legitimate progress. Industry and frugality are the only possible protections against the internal imbalances that, according to Steuart, are the likely byproduct of external trade.

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(11) *"While a trading nation, which has got an established advantage over their rivals, can be kept from declining, it will be very difficult, if not impossible, for any other to enter into competition with her"* (Steuart, 1767, p. 234).

(12) *"... the new beginners pluck up courage, and set out by making small profits..."* (Steuart, 1767, p. 235).

2.4 Balance of wealth

Steuart also considers the 'vibration of the balance of wealth between the subjects of a modern state' (Book II chapter XXVI). It is important to have this specific balance in view, since it is instrumental to a better understanding of 'circulation', and of the relation between money and prices. Steuart is especially concerned with the situation in which a 'luxurious' nation has lost its primacy in external trade. Under this approach, society is divided in two classes, the rich and the poor, their mutual exchange strictly defining circulation, which is *"this permutation between the two classes"* (Steuart, 1767, p. 359). The poor provide labor in order to supply their necessities and even to pursue their 'desire of becoming rich', while the rich demand the services of the poor.

The 'balance of wealth' is explained by the effects produced by circulation upon the two classes, or precisely *"... upon the political situation of the parties at the precise time of the circulation, and the consequences after it is completely effected..."* (Steuart, 1767, p. 359). Wealth is in this context assumed as *" ... this circulating adequate equivalent"* (Steuart, 1767, p. 359). Needless to say, a free society and its necessary complement – exchange by means of equivalence – are the framework of Steuart's considerations on the 'balance of wealth'.

Finally, in order to analyze circulation, Steuart situates money in one side, and 'prestations' in the opposite side. These 'prestations' are either corporeal (consumable and inconsumable) or incorporeal (personal services and rights). Land is the quintessential inconsumable, but metals and coin can be included in this category. The acquisition of land – exchange involving land and metals – produces no 'vibration' in the 'balance of wealth'. The same applies to transmissions via heritage, or to the payment of debts; that is, transactions involving inconsumable items do not affect the balance.

Whenever we consider the acquisition of consumables, not only the transaction, but the subsequent consumption, must be taken into consideration. The value of consumables includes 'nature' or 'substance' ('intrinsic worth') and labor, which modifies the substance, or produces 'useful value'. The total value is the sum of the two elements, 'substance' and labor. According to Steuart, the value of the 'substance' must be estimated *"... according to its usefulness after the modification it has received is entirely destroyed..."* (Steuart, 1767, p. 362). For instance, the 'intrinsic worth' of a linen manufacture is less than the value of the raw material, because the latter does not serve any other use after having been manufactured. With metals, this destruction of 'intrinsic worth' does not happen.

To sum up, the intrinsic value is 'something real in itself'. The consumption of the matter implies the consumption of its intrinsic value, as well as of its useful value. Steuart applies this value framework to the 'balance of wealth': whenever anyone acquires a merchandise with a coin, for instance, it is not the exchange, but the consumption of the merchandise, that unsets the 'balance'. The spur to industry is a consequence of the effort to acquire this 'balance', "*… which gives a relative superiority even among those of the lowest classes, and determines their rank as well as their political necessary…"* (Steuart, 1767, p. 363).

The essence of the matter is *"... the change in the relative proportion of riches between individuals."* (Steuart, 1767, p. 363). If we have in mind that exchange presupposes equivalence, consumption *"... is the only thing which makes the balance turn"* (Steuart, 1767, p. 363). It is worth noting that Steuart's conception of wealth is not restricted to metals, or money. Wealth implies *"... the means of purchasing whatever man can perform or produce"* (Steuart, 1767, p. 364). In a trading society, money is the most conspicuous 'means of purchasing', but land, as well as any exchangeable commodity, may perform the role.

Steuart clarifies his position by means of a telling example, in which an 'industrious workman' ends up purchasing the land of his extravagant landlord. The two personages entertain a sort of rental arrangement, in which the 'industrious workman' – a tenant, in fact – hires labor, works hard and spares money, while the landlord wastes a sum that exceeds his contractual rents. In the end, the landlord exhausts all his 'funds of credit', while the tenant accumulates credit. The 'balance' has turned against the landlord and in favor of the workman.

It is important to note that 'balance of wealth' is a notion that applies not only to individuals, but to nations. External trade may unsettle the 'balance of wealth' between nations.

2.5 'Symbolical money'

Credit is 'symbolical money' 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 ...*

> *are some of the many species of credit included under the term symbolical money* (Steuart, 1767, p. 365).

'Denominations of money' and their necessary 'realization in coins' is a central point in Steuart's conception of money, developed in Book III.

As part of the above mentioned landlord versus workman illustration, Steuart examines how an exchange of equivalents – land versus working faculty – in the end implies a transfer of wealth. According to him, the notes of credit transferred from one party to the other have in effect a 'real value', as if they were gold or silver. But, apart from considerations on 'real value', decisive to Steuart's system is the possibility of creating instruments to throw land, and other property, into circulation:

> *Nothing is so easy as to invent a money which may make land circulate as well as houses, and every other thing which is of a nature to preserve the same value during the time of circulation. Whatever has a value, may change hands for an equivalent, and whenever this value is determined, and cannot vary, it may be made to circulate; and in the circulation to produce a vibration in the balance of wealth, as well as a pound of gold or silver made into coin* (Steuart, 1767, p. 366).

The nations that create and accept instruments to circulate their property, and even personal services, *"... might produce an eoncouragement for industry far beyond what could be done by metals only"* (Steuart, 1767, p. 366). Alternatively, nations that allow only metals to circulate *"... confine their industry to the proportion of the mass of them"* (Steuart, 1767, p. 366). As it will be seen, the possibility of creating means of circulation from mortgaged property is a decisive element of Steuart's comments on Hume. Yet, as overtly admitted in Book II, chapter XXVI, credit, the proper content of Book III, was anticipated to Book II just to illustrate to what extent the consumption of luxury goods may be carried on.[13] Credit, as much as it furthers industry, might enhance prodigality, thus disrupting the 'balance of wealth', and affecting – sometimes positively, sometimes negatively – the 'balance of work and demand'. The excessive expansion of credit is a risk, and credit must be cautiously utilized:

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(13) On this respect, Steuart's conclusion is straightforward: *"... since* all *may be cut into paper ... and made to pass current as an adequate equivalent for the produce of industry; ... there is no bounds to be set to consumption and prodigality..."* (Steuart, 1767, p. 366).

> *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 bye, are the principal cause of inequality) to give an adequate circulating equivalent for the services they demand, to the full extent of all their worth. In other words, it is a method of melting down, as it were, the very causes of inequality, and of rendring fortunes equal* (Steuart, 1767, p. 367).

Steuart's presentation of symbolical money converges into a momentous political issue: 'universal equality'. Asking if 'universal equality' is a means to prevent superfluous consumption, Steuart, *contra* Montesquieu, concludes that equality of fortune would not extinguish luxury, but only change its nature. In his view, equality is preserved by 'unlimited industry', the latter being an equivalent to an 'universal circulation of all property'. Only industry and circulation of property will bring about a mutual control of 'dissipation' and 'hoarding'. The 'most effectual remedy' against unlimited poverty and uncontrolled riches is circulation, industry and dissipation. The combination of these elements produces soft and self-controlled oscillations in the 'balance of wealth'.

The analysis of transactions involving rights, a special type of 'things incorporeal', leads Steuart to comment on a subject that crosses the entirety of the **Principles**, being properly developed in Book IV: public debt. This right, purchased by means of an equivalent, produces *"... the greatest vibration in the balance of wealth possible"* (Steuart, 1767, p. 370). Public debt implies an obligation of the state, and, on the the public creditors side, a right to 'general impositions on the people'. Steuart examines whether public credit produces a 'vibration' in the 'balance of wealth' 'within the state', and his conclusion is that it does not produce 'vibrations', considering a closed circuit composed by creditors, the debtor (the state) and tax payers.[14]

Yet, external transactions allow for 'vibrations of wealth' between nations: *"... every penny of money sent out of a country, for no real and permanent equivalent received in return, operates a vibration in the wealth between nation and nation"* (Steuart, 1767, p. 372).

All in all, *"Industry is the only method of making wealth circulate, so as to change its balance between the parties; all kinds of circulation which*

(14) Taxation and debts do not affect the inter-groups balances, but affect the 'man and man' balances.

operate no such change, are foreign to the present purpose" (Steuart, 1767, p. 372-73). There are 'circulations' that affect the balance, and others that do not.

Prior to examining the relation between money and prices, Steuart introduces (Chapter XXVII) additional remarks on circulation. Neither his definition of circulation, nor his concern with the adequate quantity of money in circulation are entirely new, considering the late seventeenth and eighteenth century political economy tradition. And, from the beginning it is salient that his approach is entirely aimed at advising the 'statesman' about the state of the circulating media, as well as about the propensity of the rich to consume, and of the poor to be industrious.

In Steuart's view, scarcity of money in circulation thwarts industry. In contrast to antecessors such as Cantillon, Petty, and even Locke, he concludes that *"It is impossible to determine the proportion of coin necessary for carrying on the circulation of a country..."* (Steuart, 1767, p. 376). Especially when paper credit is not an important element of the circulating media, this proportion depends on the constantly changeable 'disposition' of the possessors of coin. In view of the inherent instability of that 'disposition', the 'statesman' must constantly stay *"... upon his guard against every cause of stagnation"* (Steuart, 1767, p. 376). The instruments of the 'statesman', broadly taken, are "... *drawing the coin of the country out of its repositories"* and "… *facilitating the introduction of symbolical money to supply its place"* (Steuart, 1767, p. 376-77).

Luxury in itself does not collide with industry – quite the contrary. Yet, excessive 'luxurious consumption' may thwart industry. Steuart adds that *"This is the case, when the consequences of domestic consumption raises prices, and thereby hurts exportation."* (Steuart, 1767, p. 377).Steuart is especially concerned with countries in a 'state of simplicity'. In this case, the statesman must encourage domestic consumption, spread the money that was locked up, and stimulate paper credit. The critical element is the necessity of emptying the treasures that remain amassed in countries 'where simplicity prevails'. The best method to throw locked up money into circulation is to stimulate lending at interest, either to private parties or to the state.[15] Indeed, one of the main differences between primitive and advanced nations is the extension of credit.

(15) "*The introduction, therefore, of loans upon interest, is a very good expedient to accelerate circulation, and give birth to industry*" (Steuart, 1767, p. 378).

Several expedients may raise credit. In Steuart's view, the 'statesman' must first of all stimulate mortgage expedients that allow easy liquidation. In the end of the day, credit is indispensible: *"The greatest of all obstacles to industry in its infancy, is the general want of credit on both sides* [consumers and 'industrious people' MCC]*"* (Steuart, 1767, p. 380). The heart of the matter is the provision of 'circulating funds', ready to provide money to *"... those who have any sort of real equivalent to give for the consumption they incline to make"* (Steuart, 1767, p. 380).

Once the paper money originated by the mobilization of solid property becomes accepted, and is multiplied, Steuart asks *"... whether the real value of this paper is any way diminished, because it exceeds, by far, all the gold and silver in the country, and consequently cannot all at once be liquidated by the means of the coin?"* (Steuart, 1767, p. 382).His negative response is based on the belief that this multiplied paper money *"...does not draw its value from any representation of these metals..."* (Steuart, 1767, p. 382), but from the value of the mortgaged property.[16] In the hands of money hoarding persons, this money will not be expended in consumption, but in transferring them the property of mortgaged land. In what concerns the 'balance of wealth', the transfer of land property from indebted landlords to 'industrious' and frugal workers or tenants, is the best solution to keep alive the adequate balance of frugality and luxury consumption, that characterizes a thriving nation.

In short, Steuart's strong advice, especially in the case coin is scarce or concentrated in treasures, is to facilitate the transformation of solid property into means of circulation, with the final purpose of providing occupation and/or markets to the industrious men. The latter have no solid property, able to be converted into money, while, for those who have property, *"... the credit is constantly at hand..."* (Steuart, 1767, p. 384). It suffices the creation or preservation of legal instruments, able to facilitate *"... to throw ... solid property into circulation, whenever coin is found wanting"*. (Steuart, 1767, p. 384).

3 Steuart versus Hume

The many passages on money, prices, balance of trade, directed against either the letter, or the spirit, of Hume´s monetary theory suggest that the

(16) A position similar to Law's, in **Money and Trade Considered** (Law, 1705).

establishment of a contrast with Hume was one of Steuart's guiding lines.[17] In chapters XXVIII and XXIX of Book II, however, Hume is the overt target. In the concentrated comment on Hume's and Montesquieu's version of the quantity theory, Steuart recurs to his (formerly exposed) conceptions of demand and prices, at the same time applying the essence of his method, which lies on the submission of abstract principles to the 'particular circumstances' of social life. In line with his precepts, after praising the simplicity and generality of Hume's and Montesquieu's statements, Steuart advances that in this matter – rise and fall of prices –, as well as in every other part of political economy, *"... there is hardly such a thing as a general rule to be laid down"* (Steuart, 1767, p. 394).[18]

In the sequence, Steuart synthetizes Hume's and Montesquieu's doctrine in three points: 1. Prices are proportional to the plenty of money in a country, including paper money; 2. Coin and current money are the representation of labor and commodities; 3. As a consequence of the latter, *"... increase commodities, they become cheaper; increase money, they rise in their value"* (Steuart, 1767, p. 399).[19]

These three points are included "*among those general and superficial maxims which never fail to lead to error"* (Steuart, 1767, p. 399). They would be pointedly criticized, but previously Steuart recalls some elements of his general approach to population, trade and industry, that ultimately influence his understanding of circulation, money, prices.

First of all, he reminds us that the emergence of a common standard of prices depends on the existence of frequent exchanges. Where 'simplicity reigns', there are scarce transactions, thus, no standard prices. On the other hand, frequent transactions imply a society divided in two classes, laborers and

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(17) For instance, chapter VIII, Book III (*Of the disorder in the British coin,..*) contrasts with Hume's conceptions. Hume's **Essays** are a very apparent shade behind Steuart's **Principles**. Taking into consideration that Steuart critically read Hume's **History of England** in 1760 (Furuya 2009), one year after the completion of the first draft of Books I and II, it may be assumed that around 1759 and 1760 Steuart was concentrated on Hume's writings.

(18) According to Hutchison (1988), Steuart's rejection of the quantity theory is the maximum example of his objections to 'general propositions'.

(19) "*Encrease the commodities, they become cheaper; encrease the money, they rise in their value"* (Hume, 1752, **Of Money**, p. 290).

free hands – the dominant division of the **Principles**. The free hands buy the laborers' surplus by means of a fund produced by their 'industry'.

The exchange between laborers and free hands, an 'exchange of superfluities', represents the backbone of the 'gentle dependence' that connects people in free societies. Considering this nuclear exchange, the prices of subsistence are seen as dependent upon the class structure ('the occupation and distribution of the classes of inhabitants'), and not so much upon the supply of these goods, and of money. That is, and to begin with, the price of subsistence does not follow Hume's rule. Situations that exemplify the coexistence of low prices and ample stocks of money are taken as an evidence that the 'little occasion' people has to buy things, and not the quantity of sellable articles, is the decisive factor. Underneath this finding lies the simple proposition that, even in thriving societies, the market for subsistence may be narrow, once a good share of the subsistence is obtained out of the markets. Only in 'countries of industry' subsistence tends to be obtained through monetary interchange.[20]

This sort of introductory remark on market and non-market supply – by the way, not incompatible with Hume's view -, ends up in an already trodden line: differences in price formation, regarding subsistence and superfluous goods. Additionally, and retaking Steuart's demand-price theory, distinction between numbers (of demanders) and variations in demand. The number of buyers determines the quantity sold, and the faculties of the buyers determine, or fix a ceiling to, prices. Prices are dependent on the 'standard value of subsistence'. In a synthesis, the demand for labor determines the 'faculties' of those who demand subsistence, and the price of these goods must be compatible with the demanders' 'faculties'.[21]

Proceeding in his review, Steuart reminds us that a 'raising' demand increases the value of the demanded good, since competition is implied, while a simple 'augmentation' of demand leaves the prices still. In the first case, supply is supposed not to respond to the raising demand. In both cases, the

(20) *"... it is only in countries of industry where the standard prices of articles of the first necessity can be determined; and since in these, many circumstances concur to render them either higher or lower than in other countries ... they bear no determined proportion whatsoever, to the quantity of gold and silver in the country..."* (Steuart, 1767, p. 398).

(21) *"The faculties, therefore, of those who labor for a physical-necessary, must, in industrious nations, determine the standard value of subsistence, and the value in money which they receive for their work, will determine the standard of their faculties, which must rise or fall according to the proportion of the demand for their labour"* (Steuart, 1767, p. 398).

increase of riches will push money into circulation. However, if this 'revolution' does not affect the state of demand, the additional coin that accompanies the increase of riches will be locked up, or the additional paper-money will be returned to the debtor, thus extinguishing the credit operation. In Steuart's system, money is continually leaving treasure chests and entering into circulation, or returning to treasure chests; or, in the case of paper-money, being extinguished by the termination of the corresponding credit. The key variable is the state of demand.

Ultimately, 'demand and competition' depend upon the 'inclinations' of those who have property or any kind of equivalent to be given, and never upon their stock of coin. It is the 'desire of spending' that raises prices. Scarcity of coins is not admitted as a limit, since substitutes such as bartering, symbolical money, mutual accountancy of debts, are at hand.

It is interesting to observe that, in this exact point, a door for Hume's price-specie-flow mechanism is apparently opened. Steuart asks if external trade will not keep prices in proportion, in all involved countries. His positive response is based on the admission that the sudden 'augmentation' or 'diminution' of specie would have its effects restrained by foreign competition – a conclusion certainly not opposed to Hume's perception. As Hume himself makes clear, an isolated country is the only admissible setting for thinking of an immediate, and uncompensated, impact of variations in the supply of money on prices.[22] Once we introduce external trade, there are other implications, described by the price-specie-flow mechanism, an indispensable complement to Hume's quantity theory. It is significant that Steuart recurs to the isolated country illustration to stress that, even in this case, prices are ultimately affected by the 'frugal or extravagant turn' of the inhabitants. In his view, changes in 'frugality and dissipation' are the key element, and they can take place in any situation, not only when accompanied by a variation in the quantity of specie.

Steuart also rejects the proposition that, in the case of superfluous goods, it is 'the genius of a people' plus the quantity of money that influences prices. Of course, in the case of necessity goods, prices are always proportional to 'the mass of riches'. An example involving the prices of grain shows that

(22) In a 'nation within itself', all impacts are on prices: "*Money having chiefly a fictitious value, the greater or less plenty of it is of no consequence, if we consider a nation within itself; and the quantity of specie ... has no other effect, than to oblige every one to tell out a greater number of those shining bits of metal for clothes...*" (Hume, 1752, **Of Interest**, p. 297).

they are dependent on *"... the proportion of wealth, found in the hands of the lowest class of the people;..."* (Steuart, 1767, p. 401); in other words, on the faculties of the poor. The returns of the poor's industry regulate their demand, and these returns ultimately depend on the wealth of the rich and on their competition for the poor´s industry.

In the case of superfluous goods, Steuart admits that an 'extraordinary demand' raises their prices more in a country well provided by coin than in another where coin is scarce. The reason is, *"... on certain occasions, the price of a thing has no other bounds than the extent of the faculties of the buyer"* (Steuart, 1767, p. 402) – understood by faculties in this case possession of money or access to credit. Steuart complements:

> *In like manner, in other countries where there is almost no coin, nor credit, it may be impossible for the highest demand to raise the price of such things even to the common standard established in those where there is great wealth* (Steuart, 1767, p. 402).

The above passage apparently endorses Hume's hypothesis on prices and money – once 'great wealth' is understood as a good supply of money. But Steuart adds that the instances he referred to are too 'particular' and cannot represent the foundation of a general rule in modern Europe, a continent where communication among countries is the rule. He also appeals to two historical illustrations concerning the relations between money and prices. One of them compares the prices of oat in Scotland, in old times and at present, just to conclude that *"... it is the augmentation of wealth, not that of demand which raises prices"* (Steuart, 1767, p. 403). The other takes the high prices of rare objects, and the very low prices of an ox, in old Rome and Greece, places where money was abundant.

The 'apparent inconsistencies' of these examples is solved by the 'application of principles to the circumstances'. In Scotland, as in old Rome, there was little demand for grains. In Scotland, because agriculture was primitive, rents were low and free hands scarce, which shows *"The demand is proportioned here, not to the number of those who consume, but of those who buy..."* (Steuart, 1767, p. 404). In Greece and Rome, slavery, free distribution of grain by the state, and the scarcity of 'industrious', restrained the market for grains and the competition among buyers. Rare and exquisite goods achieved high prices because they were disputed by the few wealthy proprietors of great treasures.

The proximity between Steuart's maxim – demand is proportioned to the 'number of those who buy' – and Hume's observation that prices depend on the quantities of commodities, and of money, circulating in the market, is acknowledged by Steuart himself.[23] In a long paragraph, just after the Scotland and Rome example, he concludes:

> *From what has been said, it appears, that the riches of a country has no determined influence upon prices; although, I allow, they may accidentally affect them: and if we depart from the principles above laid down, to wit, that prices are regulated by the complicated operation of demand and competition, in order to follow the other, we must add a restriction (which I observe Mr. Hume has attended to on one occasion, although he has lost sight of it on several others) to wit,* ***that the price of every commodity is in proportion to the sum of money circulating in the market for that commodity****; which is* **almost** *my proposition in other words: for the money to be employed in the purchase of any commodity, is just the measure of the demand* (Steuart, 1767, p. 405, author's emphasis).[24]

Steuart's interpretation of Hume's warning – that we should take into consideration money and commodities in circulation – is not very accurate. We will further return to 'the sum of money circulating in the market for that commodity', a sentence that seems to confirm that Steuart's demand theory envisages detached commodities, being not entirely compatible with Hume´s aggregate money versus commodities approach. For the moment, let us note that Steuart complements this acknowledgement of the proximity between his and Hume's propositions by a sentence, that goes as *"... the money in the market* ***defined*** *only for the purchase of a particular commodity, does not regulate the price of it* (Steuart, 1767, p. 405, author's emphasis). The sentence is followed by another theme – in fact, the same theme was underneath the old Scotland example -, the weight of money.[25] The observation on the weight of money, almost incidental, would be left aside in favor of another, and much

(23) Vickers (1959) calls attention to this concession to Hume by Steuart.

(24) Hume's position is (**Of Money**): *"... the prices do not so much depend on the absolute quantity of commodities and that of money,..., as on that of the commodities, which come or may come to Market, and of the money which circulates"* (Hume, 1752, p. 290).

(25) Exactly, prices depend upon inclination, and not upon the weight of money. But weight of money is a matter to be developed only in Book III.

more important, one; viz., money directed at a particular commodity, versus money directed at indistinct commodities.

Steuart once more recurs to the market for grains to illustrate his propositions. According to him, extraordinary demand will enforce competition among buyers, raising the price of grain. Refusing to concede to the fact that rising prices were provoked by the plethora of money, he adds: *"... if the demand has risen in one market, it must probably have diminished in another, as the same inhabitants cannot consume in two places"* (Steuart, 1767, p. 406). No conclusion is gathered from this sentence, but the reader is led to assume that the diminution of money in the remaining markets brings the prices of all other commodities down. That is, being markets segmented – as if the money in existence had been previously allocated to each commodity – would not the necessity of diverting money into a precise (and indispensible) commodity forcefully diminish its availability to other goods?

Effectively, after having assumed that 'the same inhabitants cannot consume in two places', Steuart provides an additional grain example, in order to show that prices are not responsive to the availability of money. The example apparently endorses the market segmentation hypothesis, viz., that certain amounts of money are directed at precise commodities:

> *Suppose the whole quantity of grain in the market to be thirty quarters; if there be no demand for more, these will be sold at forty shillings, as the twenty quarters would have been. But suppose the demand to be for sixty quarters, and that there is a hundred and twenty pounds sterling ready to be employed for corn, does it follow, that grain will rise to four ponds a quarter, because the money in the market bears this proportion to the quantity of grain? Certainly not* (Steuart, 1767, p. 406).

That is, prices are previously defined (by demand and competition), and sellers will not succeed in their attempts to raise prices only because there is plenty of money in circulation. The remaining money will not pump up other prices; it will be thrown into chests. Looking from the opposite angle, if money is scarce, and is not supplemented by substitutes, 'industry itself will come to a stop'. But it is noteworthy that Steuart's conclusion opens space to the admission of an international leveling of prices, which, apparently, presumes a specie-flow mechanism:

> *... whatever be the quantity of money in any nation, in correspondence with the rest of the world, there never can remain,* ***in circulation****, but a*

> *quantity nearly proportional to the consumption of the rich, and to the labour and industry of the poor inhabitants. The value of each particular species of which consumption is determined by a complication of circumstances at home and abroad; consequently, the proportion is not determined by the* ***quantity*** *of money actually in the country* (Steuart, 1767, p. 407, author's emphasis).

According to Steuart, Hume's hypothesis – the produce of industry, great or small, always absorbs the entirety of the specie in circulation in the country – leads to an error, since it implies

> *... that the industrious will never seek for a better price from abroad... and ... the monied people* ***must*** *spend all they have in supplying their most moderate wants, and never seek for cheaper merchandize than what they can find at home. Consequently, there can be no foreign trade, nor can ever be any hoarding* (Steuart, 1767, p. 408, author's emphasis).

It is interesting to note that the latter comment, although entirely alien to Hume's external trade adjustment mechanism, was nonetheless emphasized in the exact moment Steuart retook the synthetic three propositions, in order to trumpet his ultimate criticism.

The first proposition – prices in proportion to the plenty of money – was retaken in order to attack Hume's disapproval of paper money, understood as *"... a project to destroy credit,..."* (Steuart, 1767, p. 408). A sudden smash of credit, proceeds Steuart, would simply overturn the 'balance of work and demand'. Prices would react differently to credit compression, for two reasons. First, specie is not divided proportionally to the distribution of property; second, some prices – and certainly the price of subsistence goods – are internationally determined. Finally, since tastes are national specific, external markets would not absorb the sumptuous goods that, due to the credit shortage, would lack internal demand. The diminution of the overall demand for superfluous goods would increase the competition among the industrious, firing unemployment.

The first proposition would be no more valid in an isolated country. Here, Steuart returns to his old chorus of substitutes for specie, adding a new line: (scarce) money will flow into the hands of those who value it more, such as proprietors of land. In other words, more land will be given for the same amount of money, and/or the interest rate will rise. This isolated mention to interest rates should not be interpreted as part of Steuart's basic model involving interest rate and the supply and demand of money, to be presented further. It simply echoes the well admitted fact that interest rate and price of land operate in opposition, high interests meaning cheap land. Anyway, Steuart takes the opposition between interest rates and price of land as a proof that *"... the repartition of specie can never be in proportion to property;..."* (Steuart, 1767, p. 410) – a proposition that supposedly 'destroys the supposition' that prices follow the supply of money.

Steuart's 'proof' retakes the hypothesis that, once one set of commodities has its prices risen, less money will remain available for the rest of commodities, or within the vicinities. In this location, or set of commodities, demand will falter. In Steuart's terms,

> *... any individual who has, by mortgaging his lands, got together a large proportion of the specie of his country, will raise prices in his neighbourhood, by making an extraordinary demand for work; and the rest of the same country, drained of their circulating value, must diminish their demand; consequently, prices will fall elsewhere* (Stewart, 1767, p. 410).

That is, if prices elevate in the vicinity, they will necessarily fall in other locations, due to the localized scarcity of money. Which means we cannot conceive of a general elevation of prices.

The second proposition – money as a representation of labor and commodities – arouses disagreement on what can be understood as 'representation'.[26] If 'representation' means 'equivalent', *"... there is no necessity of this equivalent to consist in coin"* (Steuart, 1767, p. 410). Clothes are exchanged for personal services: one represents the other. This possibility raises a question: in a country devoid of pennies, cannot alienations exist; or, should goods be delivered for free? Of course, inexistence of pennies represents the negation of trade, while all controversies on price, demand, money, pertain to trade. But, leaving aside what seems to be a lapse, or an extreme liberty in Steuart's reassessment of the money versus prices question, let's remark that

(26) In the sequence of an already presented quotation (footnote 19), we read: *"But as these metals are considered chiefly as representations..."* (Hume, 1767, **Of Money**, p. 297). Also *"If industry alone has encreased, the prices of every thing must sink, and a small quantity of specie will serve as a representation"* (Hume, 1752, **Of Money**, p. 300). In **De l'Esprit des Lois**: *"La monnaie est un signe pour représenter la valeur de tout les marchandises"* (Montesquieu, 1748, p. 252).

his critique of 'representation' opens a door to the refinement of a specific subject of Book III, money.

According to Steuart, coin has an intrinsic value and adds to the value of a country, but *"... has no title to represent any thing vendible ... or to be considered as the only equivalent for all things alienable"* (Steuart, 1767, p. 410). Coin is made a 'common price', because of its properties.[27] The value of the coin is 'a proper equivalent for everything'. An imaginary example finalizes Steuart's case. It goes as, if a ruler suddenly decides to assemble commodities and workmen in one side, and all proprietors in the other side, arriving at prices through division, after the assessment of the stocks of commodities and coins,

> *... the idea of representation might easily be admitted; because the parcels of manufactures would then seem to be adapted to the pieces of the specie, as the rations of forage for the horses of an army are made larger or smaller, according to the magazines are well or ill provided at the time* (Steuart, 1767, p. 411).

The forage versus horses example is utilized to stress that the idea of representation simplifies things 'complex in their nature', as prices. This idea has no '… resemblance to the operations of commerce', and only mimics the just posed example. Summing up, coin is an equivalent, but not a representation. The value of the commodities is not drawn from any 'proportion', but 'from the total value of the whole mass [of commodities]', *"... which is determined from the complicated operations of demand and competition, ... , and not from the specie of the country, which can bear no proportion either to the quantity or quality of the grain"* (Steuart, 1767, p. 412).

The third proposition – 'increase the commodities, they become cheaper: increase the money, they rise in their value' – is considered excessively general. For Steuart, its first part is generally true, while the second is false. In what refers to the first part, we are back to the rule that only demand can 'increase' commodities, but an increase in demand equal to an 'augmentation' in its supply produces no effect in its price. Other factors that interfere on pricing are: in the case of subsistence, the commodities may be hoarded up, producing a rise in prices amidst plenty; additional external

(27) Here, Steuart follows the tradition: the properties are its rarity, solidity, divisibility.

demand will raise the price of subsistence goods; in the case of non-exportable superfluities, an overstocking of the branch will depress prices.

The same observations apply to a diminution in the quantity of commodities. If a retraction of demand provokes a degree by degree diminution in the supply, prices stay still. Whenever subsistence is below the normal standard of consumption, prices rise. The impact of a diminution of superfluous goods on prices will depend on the ensuing competition among buyers.

In what refers to the second part – increase the money – *" ... nothing can be concluded as to prices, because it is not certain, that people will increase their expences in proportion to their wealth;..."* (Steuart, 1767, p. 413). Additionally, all depends on reactions on the supply side. Yet, proceeds Steuart, once established a 'just proportion' between money and the 'desires and wants', any decrease of specie in circulation will 'hurt the industrious'.

Steuart suggests that many modifications more could be applied to the general rule, those already expressed sufficing to show that Hume's doctrine is *"... much more specious than solid"* (Steuart, 1767, p. 412). His final blow follows the replication of a mental experiment, in Hume's style. Steuart proposes a ten times multiplication of Europe's specie, and asks if prices would rise in proportion. His response is yes and no, 'according to the circumstances'. If industry multiplies by ten, following the expansion of the money supply, prices will not change. But if the 'scale of demand' preponderates over supply, all the wealth will be thrown over circulation and prices will have a tenfold increase. A solution entirely consistent with Hume's principles and mine, concludes Steuart, *"... because nothing is so easy in an hypothesis, as to establish proportions between things, which in themselves are beyond all the powers of computation"* (Steuart, 1767, p. 414). This sentence can be surely seen as a criticism of Hume's extreme 'thought experiments': they are logical, but, so far as they do not describe reality, the chain reactions implied cannot be taken as an economic truth.

In Chapter XXIX, Steuart analyzes the impact of the circulation of money over the 'balance of wealth', considering foreign trade. In external trade, it is also the consumption of commodities, and not their exchange, that turns the balance against one side. It is worth reminding that Steuart considers external trade as a potential source of wealth and national leadership, as far as it does not subtract subsistence from the country, and as far as the internal competition does not subtract luxury products from potential foreign demanders.

The nucleus of Steuart's criticism lies in his disagreement with Hume's principle that money flows like a fluid among nations, external trade providing the adequate level, or the adequate distribution of money among the exchanging nations. The criticism takes as its point of departure Hume's well known mental experiment – suppose four fifth of the British money annihilated in one night / suppose all the money multiplied fivefold -, rejecting that there would be a self-correcting movement, via prices, able to preserve the country's industry and wealth.[28]

Steuart's questioning involves two elements: will the annihilated money return?; will inhabitants and industry be kept as before? In his view, *"..... the event alone of annihilating the specie, and reducing prices in proportion, ..., will have the effect of annihilating both industry and the industrious,..."* (Steuart, 1767, p. 417), as a consequence destroying wealth. The reason is, the diminution of prices provoked by the contraction of circulating media would redirect products to external and more lucrative markets, the exports provoking an 'annihilation' of the inhabitants.

Steuart's peculiar reasoning is entirely attuned to his view that it is the consumption of foreign commodities, and not commodities imports and gold and silver exports, that destroys wealth, or turns the balance of wealth against a nation. The exchange of commodities for money preserves the balance of wealth; the consumption of the exchanged commodities in one side of the scale, destroys the balance. This is a maxim that applies to interpersonal as to inter-nations relations.

Of course, Steuart's conception of external trade is associated to his peculiar understanding of wealth. Much more than an amassed treasure, wealth is the capacity of transforming industry into goods, and of preserving capital. Consumption beyond production, for an individual as for a nation, means destruction of wealth and/or capital. Although Steuart's uses of the term capital

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(28) *"... suppose, that all the Money of Great Britain were multplied fivefold in a night, ...? Must not all labour anc commodities rise to such an exorbitant height, that no neighbouring country could afford to buy from us; ... "* ... *"All water, wherever it communicates, remains always at a level"* (Hume, 1752, **Of the Balance of Trade**, p. 311-12).

are neither precise nor unambiguous, his treatment of external trade gives us some interesting clues.

For instance, Steuart says that, if a 'rich nation' incurs in a deficit, that is, consumes more than produces, the negative balance must be paid for either in specie or *"... in an annual interest, to the diminution of the former capital"* (Steuart, 1767, p. 419). That is, once the nation is devoid of specie, the continuity of negative balances will make it dependent on external lending, or on selling parts of its territory to foreigners ('export their lands'). It seems that Steuart sees the 'exportation of land' as the ultimate consequence of a continuous negative inter-nations 'balance of wealth'.

Accordingly, his advice to the 'statesman' is to prevent the consumption of luxury. We should not believe that external demand of sumptuous goods will compensate the lack of internal demand, he adds, since tastes concerning luxury are too particular. External demand is uncertain. To the extent imbalances in external trade are not self-corrective, to guarantee a positive balance of trade is a decisive matter.[29] For an individual farmer, as for a nation, production beyond consumption, accompanied by the selling of the surplus, brings money.

In insisting that an uneven balance produces a rich country in one side and a poor one in the other side, and in his counseling in favor of a strict control over imports, Steuart is overtly disputing Hume's thesis that there is a natural movement towards equilibrium in balances and in the distribution of wealth among exchanging nations; in synthesis, *"... that wealth may, like a fluid, come to an equilibrium; ..."* (Steuart, 1767, p. 424). On the contrary, once deficits are not self -correcting, fierce action is demanded:

> *I am sure it is the interest of a rich nation, to cut off the communication of hurtful trade, by such impediments as restrictions, duties, and prohibitions, upon importation; that thereby, as by dykes, its wealth may be kept above the level of the surrounding element* (Steuart, 1767, p. 424).

(29) *"... a statesman may lay it down as a maxim, that whatever foreign commodity, of whatsoever kind it be, is found to be consumed within the nation he governs, so far the balance of trade is against her; and that so far as any commodity produced either by the soil, or labour of the inhabitants, is consumed by foreigners, so far the balance is for her"* (Steuart, 1767, p. 421).

It is important to note that what is at stake in these passages is 'the interest of a rich nation', that is, the upkeep of advantages already gathered by the superiority of the nation's industry, frugality, natural endowments. Which brings as a further question the possibility that the advantages of first comers suffice to undermine competition from less advanced countries. In this case, to keep trade free would be advantageous, or at least not threatening, to rich countries. Steuart is skeptical about this possibility: *"A manufacture must be very solidly established indeed, not to suffer any prejudice by a permission to import the like commodities from other countries"* (Steuart, 1767, p. 424). The reason is, the consumer is capricious, bending towards imported merchandises even when their quality is inferior. To protect jobs is an obligation:

> *A poor manufacturer who cannot find work, because the branch he works in is supplied from abroad, cannot live till the caprice of foreigners makes them demand his labour. If a certain number of inhabitants be employed in a necessary branch of consumption, there must be a certain demand preserved for it;…* (Steuart, 1767, p. 424).

Steuart's denial of the external trade hydrostatic leveling properties leads him to a harsh defense of protective policies. According to his metaphor, free trade would be admissible only if the world mimicked an 'universal monarchy', ruled by the same laws and costumes. Under real conditions, free trade will at the very least diminish the quantity of money in circulation, with all its effects. In short, real trade is a territory where diversity prevails, rules are rough, and national interests command policies. The best interest of the nation demands protection of internal markets.

4 Additional monetary issues: debasement, coinage

Although the initial chapters of Book III present a strictly theoretical treatment of money, most of the Book is dedicated to the 'disorders' of the British monetary system, especially debasement, duties on coinage, and their impacts on exchange rate. In the spirit of the work, general principles are applied to the 'disorders, issues that arouse not only theoretical controversies, but disagreements concerning the adequate policy to be followed.

In this section, our purpose is neither to review Steuart's theoretical approach to money, nor to confront his full treatment of debasement, coinage, and exchange rate. Rather, we are interested in detecting, from specific monetary discussions, new formulations that might affect Steuart's view on the relation between money and prices. Before we begin, it is worth stressing that Book III delves into a territory – functions of money, hazards of the 'realization' of money in pieces of metal, differences in the weight of coins carrying the same stamp[30] – that is alien to the nucleus of Hume's quantity theory and, in this sense, not conducive to direct comparisons between the two approaches. Hume's mentions to debasement are brief, and coinage is a nonissue in the ***Essays***. Nevertheless, because many of the circumstances analyzed by Steuart have a bearing on demand, supply, and prices, they may indirectly contribute to the understanding of the objections and approximations to Hume's quantity theory.

A brief note on money of account and coin – two nuclear elements in Steuart's approach to money – will favor the assessment of the 'disorders' of the monetary system. Money of account is *"**… an arbitrary scale of equal parts, invented for measuring the respective value of things vendible**."* It differs from coin, *"... which is* **price** (Steuart, 1767, p. 526, author's emphasis). Money of account represents the choice, by convention, of a unit in relation to which the value of commodities in general, including gold and silver, will be measured.[31] Value is necessarily a relation, or a proportion between different commodities, that depends upon *"... a general combination of circumstances..."* (Steuart, 1767, p. 528), involving demand, supply, competition between the demanders, and the 'faculties of the demanders'.

In a step by step argumentation, Steuart explains that, once the unit of account has been chosen, *"... people may adjust one or more of those parts to a precise quantity of the precious metals;..."* (Steuart, 1767, p. 530), thus 'realizing' money in determinate weights of gold and silver. The original scale is by this 'realization' transformed into a scale of weights, or denominations of coins, which brings about a diversity of hazards. To begin by a well known hazard, metals are themselves commodities, and their value changes according to the '*combination of circumstances'*. Besides, metals can be adulterated in weight, fineness, and denomination. It is important to remark that, although Steuart's frequently mentioned special case – the bank of Amsterdam's 'florin

(30) According to Ulgen (1999), Book III is dedicated to the impropriety of metals in performing the role of money. Steuart defends a pure ideal money of account.

(31) Steuart's first definition of money, in Book I Chapter VI, is: *"... 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 any thing alienable"* (Steuart, 1767, v. 2, p. 32).

banco' – shows the possibility and convenience of adopting an invariable value money, or an ideal scale to measure values,[32] most countries 'realize' their money of account in pieces of metal, by means of this action tying their monetary systems to all sorts of apprehensions and misunderstandings.

It seems that, in spite of Steuart's insistence on the possibility of a pure (non-commodity) money of account, he bows to the irresistible movements that end up transforming coins into units of account.[33] The consequences of debasement and coinage reflect this phenomenon.

Debasement

Debasement, and the fact that coins of the same stamp differ in their weight, are the most typical 'disorders'. As known, the 1650-1750 monetary literature focused on both problems. It is curious that Steuart considered that debasement had become an exception in his days, nonetheless insisting on the importance of this old known monetary maneuver.[34]

My guess is that Steuart was in the moment under the influence of the 1757 to 1759 debates on the standard of the British coin, the same debates that led Harris to defend a certain perspective on debasement in his **An Essay Upon Money and Coins** (Harris, 1757-58). Effectively, in Book III, part I, Harris' work, as well as Lowndes' and Locke's (1696) positions in the epochal 1695 British monetary controversy, are taken as contrasting points to the establishment of Steuart's own position on debasement. Needless to say, since debasement involves a modification in the 'balance of wealth', having in view its impacts on the debtors versus creditors relations, we have in it a truly Steuartian theme. The measures to be adopted relatively to debtors and creditors make up a good share of his advices to the 'statesmen'.

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(32) Referring to the Bank of Amsterdam, Steuart says: *"This bank money stands invariable like a rock in the sea. According to this ideal standard are the prices of all things regulated, and very few people can tell exactly what it depends upon"* (Steuart, 1767, p. 531).

(33) *"From the infancy of the world ... we find they have adopted the precious metals ... as the common measure of value, and as the adequate equivalent for every thing alienable"* (Steuart, 1767, p. 532).

(34) *"The establishment of public credit is the best security against all adulterations of the standard… he* [the Prince] *must give over meddling in the standard of his coin, or he will get nobody to lend him any more"* (Steuart, 1767, p. 553).

Apart from its bearing on the debtor versus creditor relations, debasement impacts prices. Locke's position, for instance, was that debasement enhanced prices proportionally to the loss of the metallic content of the coin. If all prices and revenues were oriented by the official monetary standard, and if the reactions to this loss of metallic content were instantaneous, the impacts on prices would not affect the relative position of buyers and sellers. In this sense, debasement was ineffective.[35] Yet, according to Steuart, price reactions cannot be assumed to be instantaneous. Besides, the fact that people take coins as money of account unsettles traditional trade relations, opening a wide space to the action of money jobbers, experts in profiting from even minimal changes in exchange rates and prices of bullion worldwide.

It is worth noting that, contrarily to Locke, Hume did not presume the price reactions following a debasement to be instantaneous. In **Of Money** he presents a suggestive example: the French king 'frequent operations' on the money happen because he knew that *"... the augmenting of the numerary value did not produce a proportional rise of the prices, at least for some time"* (Hume, 1752, p. 287).[36]

As for Steuart, his conception is that the impacts on prices are neither instantaneous, nor uniform. As a general rule, in internal transactions prices do not immediately follow the alterations of the coin, and obligations continue to be paid in the same denomination, irrespective of debasement. In foreign trade, prices instantaneously adjust to the new situation, because traders are guided by profit opportunities and remain bounded by the exchange rate.

Steuart also examines another metallic systems hard fact, the unevenness of the gold or silver content in coins under the same stamp. Be it due to clipping, or to natural wearing, hardly will two equal stamp coins keep the same weight. Many eighteenth century discussions on debasement were connected to the heterogeneity of coins under the same denomination, scarcity of coins, and, as a consequence, necessity of recoinage – many times accompanied by debasement. The following passage summarizes Steuart's overall position:

[35]Contrarily, once debasement is enacted, long term contracts firmed up in the monetary standard, or even in units of coins, would imply a loss to creditors or receivers.

[36] An extensive footnote (note 7, p. 287-88) complements Hume's explanation.

> *Did every body consider coin only as the measure for reckoning value, without attending to its value as a metal, the deviations of gold and silver coin from perfect exactness either as to proportion or weight, would occasion little inconvenience.*
>
> *Great numbers indeed, in every modern society, consider coin in no other light, than of money of account, and have great difficulty to comprehend what difference any one can find between a light shilling and a heavy one, or what inconveniency there can possibly result from a guinea's being some grains of fine gold too light to be worth 21 shillings standard weight. And did every one think in the same way, there should be no occasion for coin of the precious metal at all, leather, copper, iron or paper, would keep the reckoning as well as gold and silver"*(Steuart, BIII, p. 561).

That is, if coins were not considered money of account, their material content would be irrelevant. Since 'great numbers' attach the standard of account to the metallic content of the coin, the 'disorders' brought about by the wearing of the pieces are inevitable. Steuart summarizes in a few principles an original solution as to the effects of such a heterogeneity over prices and exchange rate: 1. *"... the value of the tale-money is exactly in proportion to the mean weight of the whole currency"*; 2. *"... the money unit being only affixed to the coin, is exactly in proportion to its weight"*; 3. being the 'intrinsic value' of the coin disconnected to its denomination, *"... the operations of trade will strike the average, or mean proportional"*; 4. As a consequence, those who pay by tale in overweight coin are the losers, while those who pay by tale in light coins are gainers, *"whether they know it or not"* (Steuart, 1767, p. 601).

Anyway, the 'realization' of money in coins produces a sort of universal side effect: the transformation of a scale of weights in a scale of value. Locke's (1692) insistence on 'intrinsic value of money' as weight, for instance, is well representative of this side effect. More importantly, Steuart ultimately admits that this is an inescapable outcome:

> *Now, the moment money is realized in the metals, and that the standard measure of value is affixed to them, let them be worn or not, it is very evident that nothing but the grains of the metal in the several pieces can present the scale by which the coin becomes a measure of value* (Steuart, B III, p. 607).

Whenever people "*lose sight of this undoubted truth"*, and insist in using as measure of value the denominations of the 'ideal' money, with no consideration to the effective grains implied in its ‘realization’, *“it is just the same thing as if they were to measure a length upon a plan without adjusting their compasses to the scale,….”* (Steuart, 1767, p. 607).

Possibly for this reason, that is, the inevitable association between weight and value, Steuart’s approach to debasement was cautious. His advice was to keep the weight of the pieces as steady as possible. However, even if a prudent monetary policy is followed, nothing will avoid the wear and tear of the coins, and the emergence of a scale of value based on weight. For all practical effects, trade will operate considering an average of the gold and silver grains in each denomination, arbitrage contributing to push the heavy coins out of circulation.

As to the effect on prices, an isolated comment on the variation of the intrinsic value (metallic content) of the money unit, may be interpreted as an admission that debasement, after all, affects prices. Steuart examines In Book III, Part I, chapter VI, the elevation of the gold content of the money unit, concluding that the money unit would enhance its value comparatively to commodities in general; in other words, prices would diminish. Effectively, he proceeds, the controversies aroused by Hume’s and Montesquieu’s hypotheses on money and prices notwithstanding, *“… any augmentation of the quantity of the metals appointed to be put into the money-unit, must at least augment the value of the money-unit, and make it purchase more of any commodity than before…”* (Steuart, Book III, p. 354).

We are allowed to conclude that, since debasement represents the opposite operation, it unequivocally raises prices. Steuart arrived at the above mentioned conclusion in the context of an analysis of the impacts of debasement on the creditors versus debtors relations, but it may be argued that it applies to prices in general. Under this interpretation, debasement raises prices: here, a difference relatively to Steuart’s formerly exposed views.

Coinage

Steuart defends in Book III Part II of the **Principles** the imposition of duties on coinage in England. His defense is supported by all sorts of arguments, theoretical or pertaining to topical economic policy issues, impacts on prices and exchange rate representing the most salient points.

The general conclusion is that the imposition (or elevation) of duties on coinage separates the price of bullion from the price of coin, making bullion cheaper than coin,[37] within the limits of the variation of the price of metals. The reason is, *"... the money-unit continuing to be affixed as before to the same quantity of the metals, ought to rise in its value..."* (Steuart, 1767, p. 551). This outcome is connected to the already debated distinction between coin and money of account, and to the acceptance of the stamp as representative of the intrinsic value of money. Examining the effects of imposing duties on coinage, Steuart concludes:

> *... the first consequence of this will be to destroy, or at least to perplex the ideas of his subjects with regard to coin, and to make them believe that it is the stamp, and not the metal which constitutes the value of it* (Steuart, Book III, v. 2, Ch. V, p. 5).

The following consequence will be a reduction of the price of commodities, in an alignment with the reduction of the price of bullion. That is, duties on coinage confirm, or bring about, the habit of *"... attaching the price of commodities to the denominations of the coin, instead of preserving them attached to the grains of the metals which compose them, as they ought to be* (Steuart, 1767, v. 2, p. 9).

In what refers to external trade, the consequences of a duty on coinage are more nuanced. In principle, anyone wanting to import a commodity from a country where coinage is charged will have to pay the price of coinage, in order to obtain local money. However, if the duties are applied unilaterally, we have to consider the effects on the exchange rate, not to mention the possibility of diversion of trade into other suppliers. And, in a first approximation, international prices will impose themselves internally, in the case of commodities subject to external trade.

The problem, according to Steuart, is that these theoretical consequences do not always prevail, since the 'revolutions' are not sensed by the people. The lags inherent in price adjustments provide the merchants, experts in the bullion market, an opportunity to profit. Besides, although fluctuations in the demand of bullion affect its price, the price of bullion does not 'regulate the rise and fall of every commodity', for several reasons: 1. delays in reaction ("*commodities rise and fall only after a certain time*"); 2. merchants sell to strangers as if all prices had risen, but *"... with regard to manufactures, they hide the revolution with great care, and preserve prices*

(37) *"... in every country where coinage is imposed, bullion must be cheaper than coin"* (Steuart, Ch. V, p. 551).

from rising, until the competition among themselves discovers the secret"; 3. in the case the price of bullion falls, *"they do all they can to keep up the prices of every commodity which they sell to strangers, until the competition among themselves obliges them to bring them down"*; 4. in the same case, referred to manufactures, *"they are all in one interest to reduce the prices in proportion to the fall of the bullion, which works its effects by slow degrees"* (Steuart, BIII, v. 2, p. 6-7).

That is, alterations in the coinage policy produce 'revolutions', and, while the adjustments proceed, the best informed party – the merchants – profits from the ignorance of common people. It must be stressed that these fluctuations are typical of situations in which the balance of trade alternates. Steuart differentiates 'alternations' from situations in which the balance of trade remains for a long time 'against a nation'. In the latter case, another 'chain of causes' tends to *"... destroy the due proportion of value between coin and merchandize"*, (Steuart, BIII, PII, Ch. I, p. 7), a result that is also attributable to *"... the imperfection of the metals in performing the functions of money of accompt."* (Steuart, 1767, v. 2, p. 7).

It is in this exact context that Steuart recurs to the oft-quoted metaphor associating price movements to parabolas. The attachment of prices to the denominations of coin is seen as real ballistic projectiles parabolas, affected by the resistance of the air: *"A good gunner must calculate the resistance of the air upon his bomb, or he never will hit the mark."* (Steuart, 1767, v. 2, p. 8).

The 'frictions' and 'political circumstances' have a bearing on the effective 'rise and fall of prices', that can be summarized in a couple of propositions. First, prices more easily rise than fall. Indeed, Steuart is incisive: *"... it is next to impossible to make a price which has long stood high, to fall in the same manner"* (Steuart, BIII, PII, ch. 1, p. 8). The reason is the impossibility of compressing the 'additional profit', after the receivers incorporate it into their normal standards. The extraordinary profits cease to be considered 'precarious', and become 'consolidate'.

The second proposition implies the establishment of a difference between prices of commodities included in external trade and 'commodities peculiar to the country'. A long term persistence of a 'wrong' balance of trade raises the price of bullion and 'keeps coin at par with bullion'. Manufacturers are led to estimate values in coin, and not according to bullion. A return to a correct balance of trade raises the price of coin, comparatively to bullion. In principle, prices would have to accommodate to the new situation, but the prices of manufactures for 'home consumption' remain connected to the coin, presenting no reduction. On the other hand, the prices of commodities that communicate with external trade are adjusted by competition.

The overall conclusion is that

> *... the imposition of coinage has not, in fact, the effect of reducing the prices of commodities to fewer grains of bullion than before, excepting those of such commodities as are sold in competition with other nations; and even then it may be said, that it is not the imposition for the coinage, but the competition with strangers, which reduces them to the minimum of their value, as well as the profits of those who work in them, to the minimum of a physical necessary* (Steuart, BIII, PII, Ch. I, p. 10).

It should be noted that, once they affect the relation coin-commodities on a general basis, duties on coinage and debasement are circumstances that impact all transactions. Even though, prices react differently, depending on distinctions such as manufacturing versus agricultural products, internal market versus external trade commodities, 'alternations' versus steady deficits in the balance of trade, rising versus declining prices. Additionally, in many situations the convergence to equilibrium is not instantaneous.

5 Conclusion

Many commenters have remarked on the methodological coherence of the **Principles**, the artful combination of induction and deduction, Steuart's persistence in qualifying principles by circumstances. The methodological unity notwithstanding, the inequality of the text stands out at a first reading.[38] It is visible that the many years separating the writing of the first two Books, in Germany, from the writing of the others, in Scotland, implied lack of uniformity. Besides, from Book III on, the author's enhanced fluency in British contemporary problems strongly influenced the choice of 'circumstances' to be introduced in the corpus of the analysis. If the scope and methodological background of the work did not change, many concepts were remade, or reappeared under new outfit.

(38) Skinner (1966) identifies a proper method in Steuart's enterprise; however, acknowledges the inexistence of a previous model to be followed, and remarks that the mass of details, and repetitions, left imprints in the text.

The passages on coinage, debasement and exchange rate, in Book III, are typical of this contrast. They reaffirm Steuart's basic and long established conception of money, that lies on the distinction between money of account and coins. At the same time, they penetrate in the ongoing British monetary debates and imply a qualification of Steuart's treatment of prices. The same may be said of interest, a matter developed in Part I of Book IV in order to provide substance to the subsequent presentation of banks and credit, but in fact responsible for an important addition to the understanding of profits, a category that had in Book II been presented as a simple, and theoretically unspecified, complement to value and prices.

In short, the theoretical structure of the **Principles** is not uniform, and many concepts were reoriented along the work. Additionally, and attaining to our point (money and prices), it is salient that Steuart's criticism of the quantity theory involves the superposition of conceptual layers not always in strict harmony. A brief review of selected points of Steuart's nuanced approaches to prices, demand, relation between money and prices, will allow us to summarize the diversity of questions under debate, at the same time pointing to the most relevant differences, and also to occasional convergences, between his and Hume's approaches.

Let's begin by 'demand', a concept that, in the company of 'competition', explains prices. We have seen that demand supersedes 'want', and requires trade; thus, it implies monetary transactions and equivalence. Demand is conditioned by the 'faculties' of the demanders. Additionally, demand for subsistence and demand for superfluous goods are essentially different. While the latter is influenced by the fancies of potential buyers, the former follows more strict rules, relative to the social structure and to the availability of employment for non rent-earners – thus, indirectly and to some extent, to the consumption decisions of rent-earners.

In accordance, whereas demand for subsistence is very weakly defined by individual choices, demand for non-necessaries opens a large space to individual decisions. And we should not forget that non-necessaries represent an elastic fraction of the output in Steuart's framework, since agricultural workers and a very large fraction of 'free hands' are included among the 'effectual demanders' of 'superfluities'.

But, for our purposes, the relevant in Steuart's concept of 'demand' is that it applies to individual goods. Each illustration of demand in Books II and III, as well as the conclusion that demand determines prices, is associated to precise goods. Aggregate demand refers to a set of identical goods, and never to a massive demand for a number of different commodities, let alone for all commodities. 'Competition' also applies to individual markets. Even in Steuart's treatment of general phenomena, such as debasement and rates on coinage, the impacts on demand and prices differ according to the considered commodities, or groups of commodities.

Whenever Steuart differentiates 'great' and 'small' demand from 'high' and 'low' demand, he thinks of demand for specific goods. Competition among buyers, as well as competition among sellers, also refers to individual goods. As seen, only 'high' demand, or a sudden supply failure, may lift up prices. One and the other possibility apply to individual goods. Once the relation between demand and prices is individualized, in the sense of applied to individual commodities, any approximation to a general price index, or to prices in general, seems not compatible with Steuart's approach to price moves.[39]

Hume, contrariwise, at least as a first approximation – in sustaining that an inflow of additional money into circulation affects prices, and not production – has in mind prices in general, or a sort of price index. However, his well known addendum describing the spread of the additional money resulting from balance of trade surpluses, admits a step by step growth of prices and incomes, and even prices differentiation across the commodities spectrum.[40] Considering this addendum, the establishment of differences between Steuart and Hume on the relation money – demand – prices, is not so simple: are we referring to Hume's first approximation, or taking into consideration the process of money spread, in which it can be assumed an allowance for separate demands?

Such (important) nuances notwithstanding, it is arguable that Steuart's overall treatment of demand, as of the relation between demand and price, is

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(39) It is for this reason that Monroe's (1966) comment that Steuart confuses particular prices with general prices is not reasonable. There is no confusion, Steuart always envisages individual prices, following detached demands.

(40) *"... some time is required before the money circulates through the whole state, and makes its effect be felt on all ranks of people. At first, no alteration is perceived; by degrees the price rises, first of one commodity, then of another;...* (Hume ,1752, p. 286, **Of Money**).

definitely referred to individual commodities, whereas Hume's approach oscillates, or contemplates the two possibilities. It must be acknowledged that in this, as in other, points, Steuart blurs the many subtleties of the **Essays**. For him, Hume simply does not differentiate commodities, affected consumers, and prices, in the analysis of the chain reactions subsequent to alterations in the availability of money.

A good complement to Steuart's commodity by commodity approach is in his exploration of the consequences of a sudden plunge of the price of a specific commodity, over the prices of other goods. To begin with, he is thinking not of regular 'vibrations' in the supply and demand mechanism, which are the norm, but of an unexpected decrease in price. His conclusion is straightforward: were Hume's money versus prices principles valid in general, the prices of the remaining commodities would be affected, since more money would be available for them. Steuart, contrariwise, holds that each price depends on 'demand and competition' in its own market.

As a necessary complement to Steuart's argument, the admission that the momentarily exceeding money will not pump up other prices; it will be pooled in treasure chests, or, in the case of paper-money, extinguished by the termination of the credit operation in its origin. In Steuart's view, the non-utilized money flows into pools, and momentary money shortages may be circumvented by credit and by the attraction of money from treasure chests. These alternatives – credit and the double sense flux between pools and circulation – provide a permanent mechanism of adjustment between money and trade.

It is interesting to note that the mechanism behind these flows of money, from and into pools, is not fully unveiled in Books II and III. Steuart admits in passing the role of the rate of interest, a category to be presented and developed only in Book IV.[41] He strictly remarks that the amassing of money depends on the 'disposition' of the possessors of coin, whenever paper credit is not an important element of the circulating media. It is presumable that the development of paper credit effaces this restriction – in this situation, the rate of interest would regulate the movements of money. However, this is just a

(41) It is because of the striking differences between the precise and integrated treatment of interest in Book IV, and the loose and unspecific mentions to interest in previous books, that Yang's (1999) conclusion that interest is the nucleus of Steuart's exchange theory, thus affecting his criticism of the quantity theory of money, seems me untenable.

presumption, since, as mentioned, rate of interest is a non-developed issue in Books II and III, while the admission of credit is disseminated in these books. And, in any situation – a coin or a paper money circulation – the 'statesman' should stimulate lending at interest.

As seen, treasure chests and pools of money that replenish or empty are a decisive component of Steuart's framework. Hume's remarks on treasure chests are less incisive, although abundant. As Steuart, he refers to the habit of amassing money or treasure in non-commercial societies.[42] The convenience of amassing money in private treasures, or converting precious metals into objects, in order to prevent its communication with circulation, is another thought of possibility.[43] Of course, the existence of a class of powerful merchants, the backbone of the modern credit system, presupposes some sort of money pooling. In this sense, Hume's ponderings on money and credit may be allowed to have money pooling as a subjacent element. Yet, Steuart is much more explicit on money pooling, and, as mentioned, central to his system is the possibility of amassing, and regularly throwing into circulation, the existent stock of money and bullion. Steuart is especially preoccupied with the possibility that, in countries in a 'state of simplicity', money would remain pooled by their rich possessors. To spread this treasure, through credit, or through stimulus to domestic consumption, is a duty of the 'statesman'.

For different reasons, it may be argued that neither Hume nor Steuart were too much troubled about a possible scarcity of money. Hume, because of the price-specie-flow mechanism. Since price asymmetries impel money across commercial frontiers, the 'just proportion' of money to trade becomes a topic of minor importance. Steuart, by his turn, is skeptical about a possible scarcity of specie, because he is quite aware of the importance of paper-money, and of the possibility of creating money out of credit relations. In fact, Steuart is attentive to possible shortages of money, or credit, that may be disruptive of the 'balance of work and demand'.[44] It may be posited, however, that his general argument is the possibility of regular creation of credit, out of commercial relations, or out of property liquefaction.

(42) See, for instance, the extensive references to treasures in ancient societies in **Of the Balance of Trade**.

(43) On the amassing of money or metals in Hume, Paganelli (2007).

(44) Steuart's notes on the possibility of a 'Keynesian' unemployment is stressed by Vickers (1959) and Sen (1957), among others.

In fact, one of the **Principles**' basic tenets is the possibility and convenience of creating money from property, by means of an adequate governance of mortgage credit. The 'statesman' must be always attentive to this governance, that may positively interfere in the 'balance of work and demand' and in the 'balance of wealth'. Anyhow, for the propertied class, money is not a problem; on the contrary, this class may become tempted to indulge in excessive sumptuous expenditures, by means of the possibilities created by credit.

In this point – credit -, the differences between Steuart and Hume are striking. As known, Hume is not an enthusiast of credit and of paper money, even if he acknowledges the importance of credit and concedes that paper money is an indispensable instrument in commercial societies. In short, it may be said that, although acknowledging credit, Hume does not assume that a trade economy is in fact a credit economy.[45] And, as known, to say that Hume is not an enthusiast of public credit is an understatement.[46] Steuart, contrariwise, assumes from the beginning that trading economies imply credit. Besides, public debt is a central element in his analysis, and he frequently reminds us the revolutionary and positive role of this instrument, not only in the economy realm, but also in the political sphere, once it restrains tyranny. Indeed, Steuart's broad view of credit, and not the possibility of an automatic adjustment via balance of trade, is the effective reason for his lack of preoccupation with scarcity of bullion or coin.

In what respects balance of trade, Hume's and Steuart's visions are completely different. Again, Hume does not allow for persistent balance of trade imbalances, simply because they are not logical. The alternations provided by inflows and outflows of specie impact prices and external trade, generating self-correcting movements in the balance of trade. Steuart, contrariwise, admits the possibility of persistent balance of trade imbalances; they are, for instance, a very typical outcome of long war periods. He thinks not of the theoretical (or logical) possibilities, but of the situation of precise countries, in precise moments. Self-correcting mechanisms are also envisaged, but Steuart accedes to the possibility of enduring 'wrong' balances. The consequences will be the depletion of national bullion, and, ultimately, an increase of external indebtedness and/or the selling of national property to

(45) On Hume on credit, I follow the subtle interpretation of Arnon (2011).

(46) On Hume on public credit, see Paganelli (2012).

foreigners, both solutions detrimental to the nation's 'balance of wealth'. The effects on prices will be multiple, as seen: there are basic divisions between internal market and external trade commodities; between luxury and indispensible goods; not to mention the complex consequences of the 'realization' of money in coins.

Additionally, and contrarily to Hume, Steuart considers that external trade must permanently remain under the surveillance of the 'statesman', for many reasons. To begin with, lack of subsistence needs to be countervailed by food imports – in order not to unset the 'balance of work and demand' and the natural 'augmentation' of the population. Besides, international relations are a matter of national power. The country profits from its international trade, and Steuart is not referring to the possible advantages to all parties brought about by division of labor and specialization, but to the advantages produced by a supplementary demand for home products, or by an easy access to food in case of internal shortage. Third, in many passages Steuart dwells upon the trade relations established among advanced and primitive nations, or the exchange of manufactures for natural goods. External trade is in this context seen as a natural consequence of a superior productive capacity. Favorable exchanges allow a manufacture producing country to avail of its superior industry, guaranteeing employment and high profits to its manufacturers and workers. At the same time, and as seen in section 3, manufacture producers may be threatened by competitors, that allow themselves to produce under low profits. In extreme cases, countries may revert to 'inland trade'.[47] In Steuart's framework, external trade implies several types of asymmetries. It is not a relation between equivalent partners.[48]

We should not let aside the fact that external monetary and commercial relations offer the involved countries a large array of advantages and incentives, but also possible disadvantages. Any transfer of incomes, as interest and land-rent, to other countries, turns the 'balance of wealth' against the country. Imports followed by consumption are subtractive of the national wealth. The exports of manufactures may drain workers from agriculture, raising prices and threatening agricultural supplies. To sum up, for several reasons – non-reliance in self correcting mechanisms, consumption considered as wealth subtraction,

(47) On the possibility of retrograding into 'inland trade', see Skinner (1999).

(48) Skinner (1966) calls attention to the particularities of this type of trade, external trade.

possibility of harming the normal supplies of subsistence goods, etc – Steuart puts external trade under political lenses. These lenses are influenced by his economic analysis, but the inverse is also valid: his economic analysis embodies political considerations, openly expressed in the (internal) ‘balance of work and demand’ and in the internal and inter-nations ‘balance of wealth’.

Just to conclude, a few words on debasement and coinage, with a view to establishing possible differences between individual price moves and phenomena that, at least in principle, should affect the prices of commodities in general. Debasement is the simplest case, once it is generally supposed to raise prices proportionally. Steuart’s opinion was, in a first approximation, that price reactions were neither instantaneous nor uniform.[49] Whereas external trade tended to be more instantly affected by the new conditions, internal prices lagged behind, because the payment of past and traditional obligations followed the denominations of the coins. Of course, in the absence of recoinage, the existence of coins with different weight under the same stamp affects the ‘balance of wealth’, given the existence of losers and gainers in each transaction cleared according to the tale.

However, in an isolated passage – as mentioned in section 2, in examining the elevation of the metallic content of the money unit -. it is admitted that debasement raises prices in general. At least, the opposite operation would make the money unit *“... purchase more of any commodity than before”* (Steuart, 1767, p. 354); that is, commodities would become cheaper, or exchange for a smaller quantity of money units, since what was at stake was their exchange relation with gold and silver. In this case, prices would not stick to the stamp, but to the metallic content of the pieces, which seems to contradict the so exhaustively debated effects of the necessary ‘realization’ of money in coins. That is, in this second approximation, Steuart seems to surrender to a perspective that was opposite to his, admitting debasement (or its opposite operation) to raise (to decrease) prices in a general character.

But Steuart offers an ampler perspective of the impacts of coinage in his specific debates on the influences of a duty on coinage. As seen, a new duty on coinage would strengthen the perception that it is the stamp that indicates the value of money. And, as far as the price of every commodity will follow the

(49) But we have seen, in section 3, that Hume also admitted delays in price adjustments, in the case of debasement.

reduction of the price of bullion (relatively to the money standard), commodities will become cheaper.

The effects on the prices of exported and imported commodities will not be so simple, since the exchange rate might react to the new duties, and trade diversion cannot be discarded. But even in the internal market, there will be delays in the adjustments, and merchants will profit from the unsettlement produced by the new conditions. Anyway, adjustments in the prices of imported commodities will differ accordingly to the longevity of the balance of trade imbalances ('alternations' versus long span 'wrong' balances), and downward price moves are much slower than upward moves. Besides, long duration imbalances will raise the price of bullion, whereas a correct balance would raise the price of coin, comparatively to bullion. 'Home consumption' commodities persist connected to coin, and not to bullion, subverting the relative prices.

That is, the impact of coinage, as of debasement, on exchange rate and on prices is not uniform. The 'realization' of money in coins reinforces a series of asymmetries, blocking the possibility of an evenly spread impact on prices, in spite of the general character of both monetary practices, recoinage and debasement. Of course, one might admit that, in Steuart's framework, these practices don't affect the supply of money, at least in principle; so, we are not in the strict ambience of Hume's quantity theory, that refers to the reaction of prices to the supply of money. Anyhow, in the analysis of the consequences of these monetary practices, Steuart strengthens his view on the complexities of price formation, and opts, if not for a case by case analysis, at least for an approach that differentiates markets, stresses the role of price makers (as merchants), considers the peculiarities and barriers existent in international trade. That is, Steuart's system devises the peculiarities of the mechanisms of adjustment in a concrete competitive setting, being in this sense adverse to the general spirit – if not always to the letter – of Hume's quantity theory of money.

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