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Smith on Money

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1. Introduction

One of the most intriguing characteristics of Smith's several passages on money and credit, spread throughout *The Wealth of Nations*, is their apparent lack of unity and coherence. Although monetary matters many times surface the text, there is nothing similar to a chapter, let alone a Book, dedicated to money and credit. Indeed, Smith's approaches to money and credit emerge within a variety of contexts, in his arguing on division of labor, value, revenue and 'produce', accumulation of capital, 'mercantile system', etc.; that is, monetary topics are clearly instrumental, or subordinated, to other (and major) theoretical issues.

Additionally, it is arguable that *The Wealth of Nations* (WN) represents a rupture in the traditions of the English economic thought, entirely concentrated on 'trade and money', at least from Potter (1650) to Steuart (1767). Topics such as scarcity of money, debasement, gold versus silver, bullion and coin, money and prices, paper money, public debt, were the essence of the economic debates that surrounded the building of a new discipline – political economy –, effectively to be codified by Smith. Even though all these topics can be identified in *The Wealth of Nations*, it is clear that they do not represent the nucleus of Smith's arguing; as they represented, for instance, the core of Steuart's *Principles of Political Economy* (1767).

Indeed, Smith has not been identified in the history of economics literature as an important contributor to monetary theory. Hume, for instance, has been more frequently considered an original monetary thinker, even though his *Essays* (1752) provide us only snapshots on money, credit, and prices. In the same thread, it is easier to assume the strength of Law's vision on money and credit in *Money and Trade Considered* (1705), or to bow to the grandiosity of Cantillon's perception of a monetary economy in his *Essay on the Nature of Trade in General* (1755), than to conceive Smith as an original monetary thinker, or to accept that *The Wealth of Nations* passages on money and credit represent theoretical breakthroughs.

Despite the absence of a forceful money and credit structure underneath *The Wealth of Nations*, the stature and paradigmatic character of Smith's work has turned the attention of historians of monetary economics towards it. At least since Viner (1937), many monetary economists and historians of economics have attempted to frame Smith's contributions to, or accepted positions on, money and banking. At stake are the 'law of reflux', Smith's understanding of bank-issued money, the real-bills doctrine, the connection between balance of payment and money supply.[1] Contrasts with predecessors are sometimes under analysis, but the underpinning of these approaches is Smith's possible anticipation of modern or, at any rate, post-Smithian contributions to monetary analysis.

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(1) An updated review of Smith's views on money and banking, and of the associated debates within history of economics, is in Curott (2017).

To modern readers, Smith's connections with monetary economics appear more frequently under another light. Countless Introductory and Intermediate general economics textbooks situate Smith as an upholder of two monetary creeds: the first one stresses his sharing of the well known tale of the creation and evolution of money, from barter to credit; the second, states that, among money's canonical roles – unit of account, means of exchange, store of value -, Smith's emphasis lies on means of exchange. As it will be seen, the first view is correct, the other not so much.[2] Anyway, this quite practiced account of Smith's standing on the evolution of monetary economics links *The Wealth of Nations* not only to ancient traditions, but to formulae that can be projected towards modern monetary theory; for instance, to the various versions of the quantity theory of money, from the eighteenth century on. Additionally, by sustaining familiar accounts of the evolution and role of money, these textbooks end up enthroning Smith as an authority in monetary theory, which he certainly was not.

The structure of *The Wealth of Nations* adds hurdles to the understanding of Smith's passages on money and credit. On the one hand, Smith certainly wanted to distinguish his work from many others that he identified as belonging to the 'mercantile system' camp, from Mun (1664) to Steuart (1767). Contrasts between precious metals and wealth, the subordinate role of balance of trade, emphasis on commodities, not to mention the parallels between metals (and money) and commodities, stress these contrasts, surely underneath Smith's treatment of monetary issues. On the other hand, Smith's system was so carefully built as to spare the reader any fancy about a possible gratuitousness of the many passages on money and credit; whose indebtedness and even internal (referred to the structure of the text) connections are not always easy to establish. Besides, the scarcity of authorial acknowledgements renders it difficult to establish theoretical lineages, indebtedness, and even controversies and contrasting views.

For all these reasons, it seems worthy to dedicate some effort to two goals. First, to the identification of the relations between WN's passages on money and credit, and their broad or immediate context. The purpose is to disentangle these passages from their textual environments, in order to catch their meaning, to associate them with major tenets of the Smithian system, or even to identify what at a first glance seems to represent nothing more than monetary idiosyncrasies.

The second goal is to connect Smith's ideas to forerunners, or even to well spread debates on money and credit of his times. As mentioned, given Smith's paucity of acknowledgments, the extent to which this purpose will be achieved is doubtful. Nevertheless, it can be taken for granted that, apart from Mun, Locke, Hume, Cantillon, and some few other more frequently referred to authors, Smith was certainly well aware of two monetary tracts that immediately preceded his master work: the never mentioned *Principles of Political Economy* (1767), by Steuart; and the only once referred to, but nonetheless influential, *Essay upon Money and Coins* (1757-58), by Joseph Harris. In our recollection of Smith's ideas on money, Harris' and Steuart's monetary tracts will be on hand.

This paper is devised as a very first step into a broader analysis of Smith's monetary theory, that will in the future try to respond to a bold question: to what extent did Smith's theoretical turn – WN is definitely not a monetary tract – diverted political economy from its monetary traditions, contributing to the building up of a non-monetary political economy approach, or at least to the fading

(2) An account of the role of Smith's work in upholding these two views is in Graber (2005). A good review of the 'from barter to credit' tale is in Peacock (2013).

out of 'credit theories of money' (Schumpeter, 1954). A very descriptive first step, let me emphasize, that trails WN's most expressive passages on money and credit, trying to situate them in their contexts, and, sometimes, disentangling them from their contexts. I hope this very preliminary procedure may at least contribute to efface the habit of attributing to Adam Smith monetary contributions, or tales, that are not his. 'Give Smith what is Smith's in monetary matters' would have been a good title for this paper, were it not so pompous; thus, anti-Smithian.

Besides this Introduction, the paper will be divided in five sections, which follow the unfolding of *The Wealth of Nation*'s (WN) text. Section two will concentrate on WN's first approaches to money, in Book I, chapters IV and V. Section three will try to make sense of Smith's concentrated treatment of precious metals, situated most of all in his approach to the rent of mines, in Book I, chapter XI (on land rent). In section four, the relations between money and capital accumulation. Section five collects the scattered monetary passages of Smith's criticism to the 'mercantile system', in Book IV. In section six, a few remarks on public debt, and - much less than preliminary conclusions - some guidelines for further investigation.

2. 'Universal instrument of commerce'

In chapter IV, Book I (*Of the Origin and Use of Money*), money is presented as the 'universal (or common) instrument of commerce`. Innumerable considerations on money and coin, its origins and evolution, form the bulk of the chapter, but it is important to have in view two preliminaries. First, the chapter is a complement to the three first, and decisive, chapters on division of labor. In this way, Smith excursions into money are submitted to his general division of labor framework. Second, Smith associates exchange to surplus.[3] The connection between exchange and surplus not only provides Smith an anthropological, or historical, account of the origins and development of division of labor and commerce; and not only emphasizes the importance of the circulation of surplus in commercial societies, as, for instance, in Cantillon (1755), Quesnay (1758), or Steuart (1767). Smith's 'exchange of surplus' goes further, and has at least a bearing on the treatment of external trade and international circulation of money.[4]

We will return to 'surplus' later. In this moment, it is important to stress Smith's choice of situating the very first considerations on money in WN within the context of division of labor. In a very well argued footnote, the editors of the Glasgow Edition (WN, BI, chapter IV, note 1) remind us that in *Lectures on Jurisprudence* (LJ) and in the *Early Draft* (ED) money was considered immediately after the contrast between market and natural price, whereas many other topics of WN`s chapter IV – barter, origins of money, coinage – were in LJ approached in other situations. In WN, the contrast between market and natural price succeeds the elaborated treatment of value and prices, in chapter V. Anyway, in WN these topics also reemerge in a diversity of situations, as it will be seen; and, most of all, Smith's first approach to the nuisances of barter, in chapter IV, paragraph 2, emerges

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(3) Man supply its necessities *'... by exchanging that surplus part of the produce of his own labour, which is over and above his own consumption, for such parts of the produce of other men's labour…'* (WN, I, iv, 37).

(4) As in Smith's summary of 'the different employment of capitals', in Book II, chapter V: *'When the produce of any particular branch of industry exceeds what the demand of the country requires, the surplus must be sent abroad...'*. (WN, II, v, 372). Harris (1757-1758) also presents 'trade' and international trade as 'exchange of superfluities'.

in this precise context: exchange – and, by extension, division of labor - is hampered because one producer may simply be not in need of the produce offered him by his neighbor. In this situation, men will try to dispose of *'... a certain quantity of some one commodity or other, such as he imagined few people would be likely to refuse in exchange for the produce of their industry*' (WN,I,iv,38). Many commodities – cattle, shells, and nails – have fulfilled this purpose, but precious metal have ultimately been chosen by its virtues (durability, divisibility…). That is, Smith's account of the origins of money,[5] is entirely derived from, and inserted in, his ample perception of division of labor.

Coinage, a subject of the utmost importance, takes approximately half the extension of chapter IV (paragraph 6 to 10), but its treatment is quite nonspecific.[6] Paragraph 11, a sort of *grand finale*, repeats the central tenet: money has finally become the 'universal instrument of commerce'. We will be back to coinage, but it is interesting to observe that debasement, an economic warhorse at least since Oresme (1355), and a central theme in Steuart's (1767) and in Harris' (1757-58) works, is almost out of scene in chapter IV. In fact, debasement appears under a very general guise: princes have 'abused the confidence of their subjects', reducing the original metallic content of the coins in order to reduce their compromises in terms of metal. In general, debtors are favored, and creditors lose. Smith is preoccupied with the *'... universal revolution in the fortunes of private persons…'*(WN, I, iv, 44), produced by debasement, but he does not advance monetary analyses, impacts on prices etc.

Before proceeding, three remarks. First, when Smith proposes the advantages, or necessity, of being proprietor of a commodity accepted by any potential exchanger, he does not explain where this commodity - in the end, metal - comes from. How does the initial exchanger, or the whole chain of exchangers, get access to metal? There is no general circulation in Smith's initial account of the access to metals – apparently, we have independent producers, and none of them was situated as a producer of metals. Where the metal comes from, a many-sided theme in the analysis of metallic monetary systems, is, at least momentarily, left aside.

Second, 'instrument of commerce' in principle implies means of exchange. But how to situate the emergence of unit of account, a perspective that cannot be evaded once we introduce coinage (and debasement)? We will come soon to the role of unit of account in Smith's system.

Third, rules of exchange are a distinct topic, to be examined in sequence; more precisely, in chapter V, on 'real and nominal price of commodities', or price in labor versus price in money. In Smith's system, prices in terms of money are not 'real', which will pose us a complex (and unavoidable) problem: what is the 'real price' of money? If 'real price' has in principle to be referred to labor, how does Smith situate, or define, the weight of metal – again, a warhorse of centennial debates on money, inextricable from debasement. The 'real value' of money was clearly associated to weight, in pre-Smithian economic literature.

As known, Smith's perspective on value and prices is dominated by his concept of 'labour commanded'. Once division of labor has been established, our needs are most of all provided by

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(5) Harris' (1757-1758) account of the emergence of money, from the nuisances of barter, is much more detailed than Smith's account. Both are very similar.

(6) The final paragraphs of Chapter IV, 12 to 18, only announce the content of the subsequent chapter. Thus, paragraph 11 effectively gives an ending to the specific content of the chapter.

goods produced by others. A man's 'own labour' supplies only part of his necessities; 'labour of other people' supplies most. Thus, *'... he must be rich or poor according to the quantity of that labour which he can command, or which he can afford to purchase'* (WN, v, 47). Smith's formula associates wealth to commodities – and not to metals – and associates value to labor commanded. Labor (commanded) is *'... the real measure of the exchangeable value of all commodities.'* (WN, I, v, 47). The 'real price' is labor, or the pain and trouble avoided, once transferred to our exchange partners.[7]

Smith wants to emphasize that, underneath money – the effective exchange instrument – stands labor. Thus, '*labour was the first price, the original purchase-money that was paid for all things.*' (WN, I, v, 48)[8] Nevertheless, value is more commonly estimated by another standard, because labor is for some reasons a troublesome measure of value. Among the difficulties in measuring value through labor, Smith names the heterogeneity of labor – a point also considered by Cantillon (1755) and Harris (1757-58) – and, principally, the fact that a commodity is most frequently compared with other commodities, or, ultimately and when money has been enthroned as 'common instrument of commerce', with money itself.[9]

It is interesting to note that in this sequence, when Smith at last lands in money, he brings to the fore general and too much debated questions concerning the adequacy of gold, silver, or any other commodity, as standard measure. The point is introduced by a general view of an important historical phenomenon, the revolution in the secular value of precious metals provoked by the discovery of America. This topic, briefly acknowledged in chapter V paragraph 7, and developed in many other passages, introduces the Aristotlean dilemma on the possibility of taking as an 'accurate measure' a standard – commodities – whose dimension (in this case, value) vary. A measure that is itself variable cannot be an 'accurate measure'. Under this constraint, Smith recoils to labor again, since '*Equal quantities of labour, at all times and places, may be said to be of equal value to the labourer.'* (WN, I, v, 50) Labor is the 'real price', whereas the price expressed in money is the 'nominal price'.

Labor itself can be admitted to have, in a 'popular sense', a 'real' and a 'nominal' price, which introduces another question, remuneration of labor. Smith is concentrated on the distinction between real and nominal price of commodities (as of labor), and examines this distinction from two angles, long-term contracts and debasement. If long term contracts (for instance, land renting) are expressed in money, their value oscillates. By its turn, debasement implies a change in the quantity of metal embedded in a coin of given face value. So, money is submitted to two challenges: the quantity of metal, and its value, vary along the time. Since the subsistence of the laborer, measured in terms of corn, is more stable than its monetary salary in the long run, corn may be said to keep its real value more constantly – which turns our attention to the convenience of establishing long-term rent contracts assuming as measure corn. From this sort of triangle - land, labor, and money – emerges a triple possibility of measure, according to the extent of the contracts, as well as a perception of the disjunction between money price and real price, in any situation.

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(7) Division of labor (and exchange) as a way to avoid 'toil' is Harris' (1757-58) perspective too.

(8) Harris: '*Though we reckon by money; yet, labour and skill...*'. (Harris, 1757-1758, p. 41).

(9) *'Hence it comes to pass, that the exchangeable value of every commodity is more frequently estimated by the quantity of money, than by the quantity either or labour or of any other commodity which can be had in exchange for it.'* (WN, I, v, 49).

Again, given the hazards of metals and of corn, labor is restated as *'... the only accurate measure of value, or the only standard by which we can compare the values of different commodities at all times and at all places.'* (WN, I, v, 54) Nevertheless – and very importantly –, Smith admits a sort of concession, or leaves aside this ultimate criterion: when we address the 'common and ordinary transactions of human life', to accept that money price and real price are kept in proportion suffices. And, finally, in their ordinary dealings, merchants take into consideration only the commodities' money price. Thus, nominal price is a good standard for the functioning, and observation, of ordinary market transactions.

Let us observe that, while in chapter IV Smith's 'instrument of commerce' seems to be associated to 'means of exchange', chapter 5 clearly points at 'measure'. How to measure with a standard whose value is in itself variable. 'Real value', or value in labor (commanded) seems to be the Smithian way out of this old known Aristotlean entanglement.[10] Which, of course, does not eliminate all the theoretical and practical problems posed by a system – commerce – which operates by means of an instrument – money – which is in itself a commodity; that is, a variable unity of measure.

'Labour commanded' seems to be a solution entirely compatible with Smith's general division of labor framework. Having said that, we should be attentive to the fact that chapter V, besides exposing Smith's views on 'exchangeable value', is entirely engulfed by typical monetary dilemmas, such as adequate instruments or exchange and measure in the short and in the long run, variability of the value of metals, debasement, international exchange (since in each country prices in terms of metal differ, as differs the exchange relation between gold and silver). These dilemmas would be retaken in several approaches to money, in further Books and chapters. Yet, the riddle posed by chapter V is this: although admitting that nominal prices regulate business, and so absorbs the attention of traders, theoretical investigations require incursions into 'real values', thus into labor and/or corn. 'Real value' and standards of measure will be recurrently at stake in WN.[11]

On the other hand, Smith dedicates a long stretch of Chapter V – from paragraph 23 to 42 (and final) – to matters interconnected to current debates on money and coinage. Recurring to the past was characteristic of Smith's historical approach (Pocock, 2006); in this case, Smith recurs to the monetary experience of Rome in the period of the first Punic war. The purpose is to situate that, along history, different metals (copper, silver, gold) have been used as money, one of them at last becoming

(10) Money as 'measure' and as an instrument for exchange was an economic literature common sense. Harris (1757-58) combines both functions very ably: *'Money is a standard measure, ... ; and is itself, at the same time, the value or equivalent, by which, goods are exchanged, and in which contracts are made payable'*. (Harris, 1757-1758, p. 37). This combination goes back at least to Law (1705) and to Locke (1691), and substantiates debates on circulation, credit, debasement.

(11) *'In such a work as this ... it may sometimes be of use to compare the diferente real values of a particular commodity at different times and places, or the different degrees of power over the labour of other people ... We must in this case compare, not so much the different quantities of silver for which it was commonly sold, as the different quantities of labour which those different quantities of silver could have purchased. But the current prices of labour at distant times and places can scarce ever be known ... Those of corn ... are in general better known... We must generally, therefore, content ourselves with them ... as being the nearest approximation which can commonly be had to that proportion...'* (WN, I, V, 55-56).

the standard. Smith's effective interest lies in England, where silver has become the standard of measure.

Effectively, the legal tender tends to convert itself in standard of measure. According to Smith, law finally establishes the exchange relation between gold and silver, a matter that was in the past left to the market. Under this condition, the distinction between the two metals – the standard and the non-standard –, up to a certain moment a 'nominal distinction', becomes crucial, because changes in the ascertained proportion open the door to gains that are more than 'nominal'. Smith choses as an example of these sorts of gains the possibility of discharging debts either in silver or in gold, an alternative capable of generating real gains or losses to debtors or creditors. Indeed, not only debt relations are at stake in this distinction between metals that perform the roles of standard and non-standard. By means of a historical digression, Smith comments on the troublesome interaction between silver and gold, or on the relation between the standard and the material coins – a permanent issue in metallic monetary systems. A very updated monetary reform, the 'late reformulation of the gold coin of Great Britain', by George III (1774), is chosen as an illustration of the relation between silver and gold.

The 'late recoinage' approximated the mint price and the market price of gold. Divergences between the mint price and the market price of gold and, especially, of silver, had always been a sensible problem in English history; for instance, they were instrumental to the 1795-96 monetary upheaval, which attracted the attention of Locke (1696).[12] Smith debates the relation between mint price and market price, pondering the effects of prohibitions and allowances over the export of coin or bullion, and at last clarifies the difference between bullion and coin. At this moment, he arrives at a decisive, and crucial, problem: duties on coinage - a crucial theme to Steuart (1767), which, as we will see in section 5, would be specifically addressed in WN's Book IV.

Duties on coinage establish a distinction between the price of coin and the price of bullion. According to Smith – and in this issue his position converges towards Steuart's – the establishment of a duty on coinage, by distinguishing price of coin and price of bullion, would prevent the melting down of coins and the exportation of specie and of coins. As far as Great Britain was an exception in not charging coinage, there was a widespread debate on the convenience of introducing charges on coinage – as, for instance, France did, with good results.[13]

At last, and after an explanation of the oscillation of the price of bullion, and of the mechanism of adjustment between market and mint price – supply and demand of bullion conduced by merchants, according to their expectations and to the state of the market -, Smith arrives at another decisive matter, the relation between standard measure and the material state of the coins.

> *The money of any particular country is ... more or less an accurate measure of value according as the current coin is more or less exactly agreeable to its standard, or contains more or less exactly the precise quantity of pure gold or pure silver which it ought to contain* (WN, I, v, 63).

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(12) Smith refers to Locke's approach to the relation mint price versus market price in Chapter V, paragraph 35.

(13) Harris *Money and Coins* (1757-58), Steuart's *Principles,* as well as Smith's WN debate the convenience of imposing a direct duty on coinage in England.

In short, for Smith, once identical (in terms of stamp) coins differ in weight, as a consequence of wear and tear, prices accommodate to an average of the effective weight of the coins in circulation. In the end, prices respond to the effective metallic content of the coins (to its average).

It is important to have in view that, whenever Smith refers to the money-price of goods, he means *'the quantity of pure gold or silver for which they are sold, without any regard to the denomination of the coin.'* (WN, I, V, 63) By the fact of relating 'money-price' to effective (or average) weight, the denomination of the coin (its stamp) has apparently no role in Smith's system. Smith would open an exception, accepting that some prices follow the tale, in Book IV, chapter V.[14] For the moment, it is as if any merchant, or even any exchanger, paid no attention to the denomination of the coin. This assumption – entirely contrasting to Steuart's treatment of the matter - has an effective bearing on how Smith envisages the price system, the exchange rate, and reactions to debasement. But these are topics dispersed throughout other WN's passages. In chapter V, in spite of descending into some particularities of metallic monetary systems and policies, Smith escapes from them.

Anyway, what remains clear is that Smith is in chapter V overtly preoccupied with standard measure and unit of account. Can money be an 'accurate measure', despite being subject to fluctuations in value inherent in any commodity (including metals), and despite being subject to material heterogeneity (weight) and to the possibility of manipulations such as debasement?

3. Gold and silver

WN's most detailed comments on precious metals are located in the very extensive chapter XI of Book I (Of the Rent of Land), a sort of necessary complement to Smith's price and revenue theory, which had in previous chapters contemplated the other revenues, wages of labor and profits of capital. Rent differs from the other revenues because, resulting from a monopoly price, it represents a residue once general expenses and general profits are covered. It may exist or not exist – being or not present in the final price of a commodity. Existing rent, it admits of a gradient. There is nothing like a 'normal rate' of rent. It is prices (high or low) that determine rent; whereas, in what concerns the other revenues, primary costs (labor and material), plus profits, make a necessary imprint on prices, determining its minimum level. The causation is inverted: high and low costs determine high or low prices, whereas high of low rents are dependent upon the high or low prices of commodities.

The intrinsic difference between rent and the other revenues leads Smith to divide his exposition on rent of land in three parts: I. Produce of the land that always affords rent; II. Produce of land which sometimes does, and sometimes does not, afford rent; III. Proportion (and their oscillation) between the values of those produces which always afford rent, and those which sometimes does, and sometimes does not, afford rent. Rent of mines – and Smith's long comments on silver and gold – belong to Part III (which is subdivided in historical periods). Before going to Part III, let us remark on a few general theoretical points that will have a bearing on rent of mines.

In Part I, Smith shows the importance of corn and food in general. Land cultivated with food regulates the rent of the lands cultivated with other products. The reason is '*No particular produce*

(14) But to no avail. Prices related to the stamp, and not to the coin's weight, make no imprint in Smith's value and price theory.

can long afford less; because the land would immediately be turned to another use…' (WN, I, xi, 175), which means, basic products will necessarily be cultivated, proportioning normal profits and the greatest possible rent.

In Part II, Smith refers to clothing and lodging, goods whose price is dependent upon a variable demand. In what refers to basic food, since there is no substantial difference between the demands of rich and poor people, the overall demand is stable.

In this exact point, Smith introduces a topic that had acquired great importance in debates on money supply since the 1600s: fertile and infertile mines. It is well known that the supply of gold and silver in Europe oscillated all along the Middle Ages, following the rhythm of discovery and subsequent exhaustion of new mines in the European territory (Spufford, 1988). Africa gold, and most of all the discovery of America, introduced permanent sources of specie into Europe. The great superiority (fertility) of the American mines led to the enclosure of many European mines, whose costs could not be covered by the new, and plummeting, market prices of gold and silver. The relation between the fertility of mines, costs (or labor) involved in the extraction of metals, the impacts on their prices and, subsequently, on the value of the money unit, is an issue developed among other economists by Cantillon (1755), Galiani (1751), and Harris (1757-58). The relation between labor inputs and metal outputs in mining is also present in Smith's account of products that sometimes allow, and sometimes do not allow, rent.

Smith emphasizes that competition among gold and silver producers is affected by a special circumstance, the reduced price of transport of precious metals, given its value relatively to bulk.[15] Coal is affected by transport costs and has immediate substitutes, circumstances that affect its price and the rent of mines. Copper, silver, and gold, have no substitutes, and producers may be outcompeted by mines from all over the world. After the discovery of Peru concludes Smith,

> *… the silver mines of Europe were, the greater part of them, abandoned. The value of silver was so much reduced that their produce could no longer pay the expence of working them, or replace, with a profit, the food, cloths, lodging and other necessaries which were consumed in that operation* (WN,I, xi, 185).

Besides, and more importantly, since prices are regulated by the most fertile mine, the rent of the proprietor is not 'absolute', but proportionate to the 'relative fertility' of its mine. Smith thinks that the discovery of more fertile gold and silver mines is always on the horizon, turning rents down. As a consequence, rent tends to become a small part, labor and profit by far representing a more expressive part, of the price of precious metals; whereas, in the case of normally reproducible agricultural goods, rent tends to share a larger and increasing part of the produce.

Smith also examines what he denominates a 'common sense' perception of the times, the high price of metals. According to Smith, the 'original foundation' of the high price of precious metals is '*These quality of utility, beauty, and scarcity*'. (WN, I, xi, 191) Metals' lowest price is, as in any commodity, limited by ordinary costs and profits. The highest price depends on scarcity, in the face of a demand, which, by its turn, is dependent upon utility and beauty.

(15) Smith would insist upon this issue in Book IV.

It is important to note that the above mentioned properties – utility, beauty, scarcity – affecting value, prices, and rent, apply to the metal; that is, they directly concern the commodity, and not the coin itself. In WN, Smith seems to be more compromised with the commodity character of money, than with its possible new properties, whenever gold and silver are coined – or turned into money. To reinforce his stand, Smith repeatedly contrasts Locke's 'common consent' view of the value of metals, which does not consider the productive aspects of mining activities. Smith's perspective, without ruling out the role of 'beauty' upon demand (and prices) of metals, does not efface their commodity character.

As commodities, metals are submitted to the general WN's revenue and price theory, which is in this specific case concerned with the difference between the produce of estates 'above ground' and 'underground': value of the produce and rent in proportion to absolute fertility, in one case (estates); in proportion to relative fertility, in the other case (mines). Or, complementarily, and to shed light on the contrast between rent of land and rent of mines, *'The value of the most barren lands is not diminished by the neighbourhood of the most fertile. On the contrary, it is generally increased by it…'* (WN, I, XI, 192), since population employed in fertile land opens markets to the product of barren land. Smith's truly 'anti-Ricardian' land rent theorem clarifies, by contrast, his approach to the rent of mines: fertile mines extinguish the rent of less fertile mines, and even their production.

As mentioned, Smith's considerations on precious metals are developed in Part III, whose core is the 'money price of corn', or the exchange relation between corn and silver, considering the following points: demand for corn is sternly connected to population, whereas supply is affected by the development of producing techniques; demand for silver is impacted by the development of trade relations, whereas supply was intensely affected by the discovery of America. In order to give a historical, or empirical, background to his findings, a four centuries panorama, subdivided in three periods, is unfolded: 1350-1570, 1570-1640, 1640-1760. Smith's glance over each period brings afloat his perceptions on silver, and money.

To begin with, under the evidences of a significant decrease in the price of corn, from 1450, in France and in Great Britain, Smith speculates if the rise of the value of silver in proportion to corn was a consequence of improvements in the cultivation of corn, or, alternatively, of an exhaustion of the silver mines. Smith connects the discovery of the American mines in the sixteenth century to the increase in demand for precious metals, adopting a sort of Humean perspective, centered in security, industry and demand for luxuries. Nonetheless, Smith concedes to ancient accounts that underline the low price of commodities – including corn - since Julius Caesar; thus, accounts calling attention to the high price of silver. Evading these ancient accounts perspective, Smith opts for submitting the silver versus wheat price contest to the ultimate criterion, labor, recalling that *'Labour, … , and not any particular commodity or sett of commodities, is the real measure of the value both of silver and of all other commodities.'* (WN,I, xi, 206).

Smith rejects an idea hold by 'intelligent authors': *'… as the quantity of silver naturally increases in every country with the increase of wealth, so its value diminishes as its quantity increases'*. (WN,I, xi, 207) According to Smith, the quantity of the precious metals in any country may increase either from the discovery of new and fertile mines, or from *'the increased wealth of the people, from the increased produce of their annual labour'* (WN, I, xi, 207). The former only – fertile mines -, and not the latter – wealth or labor –, is connected with the diminution of the metals' value.

Increasing wealth does not imply decreasing metals' prices. To the contrary, wealth naturally implies a growing demand for precious metals, in the form of plate and in the form of coin.

The comments on the price of metals within the period 1350-1570 do not clarify the extent of Smith's adhesion to Hume's version of the price-specie-flow mechanism. Paragraphs 34 to 39 provide some unclear hints. Smith begins by establishing that gold and silver, as any merchandise, *'… seek the market where the best price is given for them'* (WN, I, xi, 208). He allows then for possible transport difficulties, which establish differences in the prices of goods, and of labor, across the world. At the background of his comments is the attention to the 'advancing, stationary, or declining condition' of the economy.[16] Gold and silver achieve great values in rich countries, being lowly valued in primitive nations. *'Among savages, the poorest of all nations, they are of scarce any value'* (WN, I, xi, 209), concludes Smith, anticipating a phrasing that would be repeated throughout WN: since gold and silver seek high price markets, they will never go to places where their value is low – low because primitives have no industry nor wealth, remaining in a sort of reiterative non-growth causation.

At any rate, additional contrasts between the costs of transport of food and of metals, and insistence on the indispensability of food, contrarily to the superfluity of silver, led Smith to a conclusion that disconnected the reduction in the value of metals before 1550 from any possible increase in wealth:

> *Whatever, therefore, may have been the increase in the quantity of the precious metals which, during the period between the middle of the fourteenth and that of the sixteenth century, arose from the increase of wealth and improvement, it could have no tendency to diminish their value either in Great Britain, or in any other part of Europe* (WN, I, xi, 210).

Within the 'second period' (1570-1640), the value of silver plummeted, relatively to corn or labor. America's supply explains the fact, even in the face of a thriving industry. But it is in the analysis of the 'third period' (from 1640 on) that Smith, in a long-term appraisal of the relation corn versus silver – nominal price of corn -, makes additional comments that shed some light on his perception of money.

According to this appraisal, after 1640 America provided a steady supply of silver. The price of corn rose, from 1637 to1700, entirely due to particular phenomena that affected supply, such as civil war and agricultural drawbacks. Prices, however, were in the turn of the century affected by an important monetary upheaval, the notorious crisis provoked by debasement and wearing of silver coin, around 1695. Referring to Lowndes' assessment that silver coin was in 1695 25% below its standard value, in average, Smith concludes:

> *But the nominal sum which constitutes the market-price of every commodity is necessarily regulated, not so much by the quantity of silver, which, according to the standard, ought to be contained in it, as by that which, it is found by experience, actually is contained in it* (WN, I, xi, 213).

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(16) '*The proportion between the real recompence of labour in different countries … is naturally regulated, not by their actual wealth or poverty, but by their advancing, stationary, or declining condition'* (WN,I, xi, 209).

Effectively, Smith is corroborating his already exposed view that the price of money is related to the quantity of pure gold or silver imbedded in the money pieces.[17] It is perceptible that this view would lead him to converge towards Locke's (1696) proposition that any devaluation of the coin should produce a proportional rise in prices. However, there are no references to Locke in this passage, and, of course, no mention to the contrasting view – hold by Steuart (1767), but also, up go a certain extent, by Smith himself in other passages[18] – that, at least up to a certain extent, some prices peg to the face value of the coin, and not to its effective weight.

This matter, involving complicated issues such as metal weight, stamp of the coin, the value of silver (exchange relation with other commodities), relation between gold and silver, mint price versus market price of bullion, is reappraised in Smith's comments on the current situation, before and immediately after the last recoinage of the gold coin. Before the recoinage, gold and silver coin were defaced, silver much more than gold, but *'... though very much defaced, its value has been kept up by that of the gold coin for which it is exchanged'* (WN, I, xi, 213). That is, the possibility of exchanging gold for silver coins, or of liquidating debts in any coin, upholds the (nominal) value of silver currency. In 1695, a much deeper divergence between gold and silver coin had provoked an evasion of silver and, in an extreme moment, blocked the currency of worn off silver pieces. In the present situation, before and after the recoinage, the divergences between mint price and market price of silver are slight, which evidences the stark contrast between 1695 and late eighteenth century conditions. Whereas in 1695 circulation was disrupted, in Smith's times, moderate differences between the mint price and the market price of gold and silver did not disrupt circulation and minting. The question is, what are the impacts on Smith's view of money prices - as mentioned, referred to the metallic content (weight) of coins - of these 'normal' and admissible differences between mint price and market price of gold and silver, and, apparently, between the metallic content of the coins and its 'official' value?

After a prolonged discussion – from paragraph 10 to 19 – on the variations of the price of corn,[19] Smith concludes that the price of silver finally sank, converging into its 'natural price', in spite of the increasing demand for silver in Europe, in America, and in East India. East India had been a topic of extreme importance in monetary debates, because of the outflow of silver towards the Oriental states, and of the differences in the exchange relation silver versus gold, comparing Europe and the Oriental states. Smith advances an explanation to these differences, based on the real price and on the money price of labor, costs of production and of transport in general, and on the preferences of the Oriental people. Since the Spanish and Portuguese world was responsible for the supply of metals, Smith also transcribes data on import and consumption of gold and silver. It is worth noting that in these passages, even though the outflow of silver towards East had been a decisive matter in the 1600s debates, there are no remarks on the 'mercantile system'.

Smith's overall conclusion is quite revealing. After analyzing gold and silver supply, cost of production (metals, manufactures, agricultural products), productivity, wages, the conclusion is that, in the end, the price of metals varies less from year to year than the price of agricultural goods, a

(17) See above, in the end of Section 2. Smith's position on this is in WN, Iv.

(18) As mentioned, in Iiv, but also in IVvii, Smith raises the possibility prices be connected to tale.

(19) A discussion that involves agricultural supply, effects of bounties, demand for labor.

'steadiness of price' attributed to the durableness of metals. In a way, in the case of metals, durableness stabilizes availability, despite the oscillation of the yearly production of mines. We will come to other consequences of durableness in further WN's passages.

Variation in the price of silver, and in the relation gold versus silver, is a topic of utmost importance. Smith dedicates a 13 paragraphs section (p. 228-233) to it. These paragraphs are concerned with market supply, cost of production and the convergence (or divergence) of 'usual prices' and 'lowest price'. 'Lowest price' is the price that covers costs and ordinary profits, with no margin for rent (WN, I, xi, 231). According to Smith, gold was nearer its lowest price than silver. Silver, a much more demanded metal, became scarce; and its price had not soared to its extreme due to a reduction of taxes on silver, by Spain.

Metals come again to the fore in Chapter XI's passages on the 'different effects of the progress of improvement upon the real price of three different sorts of rude produce'; specifically the 'third sort', rude produce whose possibility of providing a rising supply is constrained by uncertainty or by physical limits. Metals are a typical case of dependence upon the discovery of new mines, and exhaustion of the existing ones. The availability of metals within a country, however, does not depend exclusively on natural barriers, but on the country's capacity of importing metals. *'Those metals frequently abound in countries which possess no mines'* (WN, I, xi, 253), a situation attributable to the state of industry, the power of purchasing; in short, a situation related to the 'annual produce' of land and labor. Thriving economies, unprovided of mines, can avail of 'such superfluities as gold and silver'.[20] Of course, the quantity of 'labor and subsistence' dedicated to the acquisition of these 'superfluities' will depend on the barrenness of mines around the world, and on the productivity of labor within the country.

Yet, the discovery and successful exploration of mines is subject to chance. In mining, industriousness does not efface hazard.[21] The uncertain, or hazardous character of mining, *'... is of very little importance to the real wealth and prosperity of the world, to the real value of the annual produce of the land and labour of mankind.*' (WN, I, xi, 254) The nominal value of the commodities will vary, but their real value – labor commanded – will not be affected. This conclusion reinforces Smith's conception of wealth, associated to commodities, and not money, and, on the other hand, hints at the quantity theory of money. Pondering the ultimate effects of fertility or barrenness of mines, and of plenty or scarcity of metals, Smith boldly concludes

> *The cheapness and abundance of gold and silver plate, would be the sole advantage which the world could derive from the one event, and the dearness of scarcity of those trifling superfluities the only inconveniency it could suffer from the other* (WN, I, ix, 255).

Besides treating metals as 'trifling superfluities', Smith apparently dismisses any preoccupation with a matter that absorbed the attention of seventeenth and eighteenth century economists and statesmen, the adequate (or minimum) quantity of metals in circulation within a country. But other angles of Smith's approach to metals and circulation emerge in WN's Book II.

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(20) To consider precious metals 'superfluities' is a view connected to Smith's 'surplus' approach, and also to his general view on accumulation of capital and on the role of money as capital, presented in WN Book II. More comments in section 4 below.

(21) Smith would stress the hazardous character of mining in IVvii.

It was mentioned above that, in dealing with the outflows of silver towards China, Smith made no overt allusion to the 'mercantile system', a well-known outcry of Book IV. Yet, Smith provides an announcement of his criticism of the 'mercantile system' in the 'Conclusion of the Digression concerning the Variations in the Value of Silver' (p. 255-260). Here, he associates this system to the erroneous precept of identifying gold and silver to national wealth. Anticipating that a deeper criticism of the 'mercantile system' would be left to Book IV, Smith restrained his comments to the simple conclusion that *'... the high value of the precious metals can be no proof of the poverty or barbarism of any particular country at the time when it took place.'* (WN, I, iv, 255).

Although the reason for the decrease of the value of metals in Europe had been the 'accidental discovery of more abundant mines…', real price and nominal price of commodities are in general not the result of accidental events, but of industry and good government. Smith's ultimate standard is the real price – price in labor – of manufactures subject to improvement. Agricultural and mining products are subject to labor, but also to natural constraints. Progress tends to raise the real rent of land,[22] or to raise the revenue of landowners, a class that, in Smith's severe judgment, lives in indolence and ignorance, and is indifferent to industriousness.

Yet, rent of mines differs from rent of land, in the sense of being subject to much more unpredictable events. The central concern of Chapter XI's passages on metals and money is how these events, combined with the overall progress, either of humanity or of determinate countries, affect the value of money and the 'nominal price' (versus 'real price') of commodities. As mentioned, scarcity of money and its impacts on circulation are a subject out of Smith's mindset, for reasons that will be examined later. In the same tread, evasion of bullion seems to be a situation only produced by wrongheaded mint procedures, as illustrated by the 1695 crisis. Anyway, we have in Book I Chapter XI Smith's most extensive treatment of metals and coin, with some clues, or anticipations, of monetary matters that would be developed in WN's Books II and IV.

4. Money and capital

In Book II, Smith situates money among the components of circulating capital. The division between circulating and fixed capital, a crucial issue in economic theory, was inserted in (and adapted to) WN's system; in this case, as a sequence of the treatment of 'revenues' and, especially, 'profits', in Book I. According to Smith, men, once in possession of a minimum stock that allows personal maintenance for a certain period, envisage *'... to derive a revenue from the greater part of it* [stock]*... '* (WN, II, i, 279). Within this framework, the basic distinction between fixed and circulating capital lies in the fact that the components of fixed capitals yield revenue (or profit) '*without changing masters'*, whereas the components of circulating capital yield profit only *'... by circulating or changing masters.*' (WN, II, I, 282) Yet, we should add to circulating and fixed capital a third component, stock necessary for immediate consumption. This share, by definition, yields no revenue.

Once Smith's concern is, most of all, the generation of profit, money is preliminarily assumed as a special component that, even though necessary to circulation, represents a sort of dead weight, in the sense of allowing no profit. Another angle for assessing the same problem – how the

(22) *'All those improvements in the productive powers of labour, which tend directly to reduce the real price of manufactures, tend indirectly to raise the real rent of land'* (WN, I, xi, 264).

components of stock contribute to the generation of revenue – is provided by the distinction between gross and net revenue. Whereas gross revenue *'... comprehends the whole annual produce of ... land and labour…'*, 'neat revenue' is *'... what remains free* [to men] *after deducting the expence of maintaining...'* (WN, II, ii, 287) fixed and circulating capital, plus the part reserved for immediate consumption.

There is a stark distinction between the maintenance of fixed and circulating capital, and, among the components of the circulating capital, a distinction between money and the other components (provisions, materials and work completed). Smith establishes an analogy between the expenditures destined to the maintenance of fixed capital and those destined to the adequate working of a 'private estate'. Both can be improved, thus amplifying the net revenue given determinate gross revenue. The circulating capital of an individual is *'... totally excluded from making any part of his neat revenue…'* (WN, II, ii, 288), although not excluded from being part of the net revenue of others.[23] Yet, money does not share this prerogative. It is *'... the only part of the circulating capital of a society of which the maintenance can occasion any diminution in the neat revenue*' (WN, II, ii, 288).

In this precise sense – *'so far as they affect the revenue of the society'* (WN,II,ii,288) – money and fixed capital *'bear a great resemblance to one another'* (WN, II, ii, 288). Smith distinguishes three aspects of this resemblance. First, money resembles the initial costs and maintenance expenditure associated to any fixed capital. Valuable materials and labor is always '*... employed in supporting that great but expensive instrument of commerce…'* (WN, II, ii, 289), that is, money. Second, as fixed capital, money is not present, be it in the gross or in the net revenue. Smith appeals to the image of money as a 'wheel of circulation'[24]: the wheel is no part of the revenue of the society. A very complicated explanation of the hazards of incurring in double accounting, illustrated by a simple exchange of gold for good, leads Smith to the conclusion that we should not add up the two sides (gold and good) of a simple exchange in order to totalize a person's revenue. Metal pieces *'... distribute to every man the revenue which properly belongs to him, they make themselves no part of that revenue'* (WN, II, ii, 291).

It is worth noting that Smith's arguing on this second sort of resemblance between money and fixed capital is illustrative of his permanent concern with 'revenue' or 'produce'. Accumulation of capital is in Book II clearly connected to these decisive categories. Besides, and most of all, Smith's approach to money in Book II stresses the contraposition between 'gross' and 'neat' revenue.

The third resemblance between money and fixed capital finally introduces paper money. Savings in money, as much as any saving in the construction or maintenance of a machine, accrues to the society's net revenue. Being paper money, especially bank notes, the most typical instrument for economizing metallic coins,

> *'The substitution of paper in the room of gold and silver money, replaces a very expensive instrument of commerce with one much less costly, and sometimes equally convenient.*

(23) '*Though the whole goods in a merchant shop must by no means be placed in his own stock reserved for immediate consumption, they may in that of other people, who, from a revenue derived from other funds, may regularly replace their value to him, together with its profits, without occasioning any diminution either of his capital or of theirs.'* (WN, II, ii, 288) That is, personal consumption represents revenue (and profit) for others.

(24) Contrasting with Hume's (1752) image: money is *'... the oil which renders the motion of the wheels more smooth and easy'* (Hume, 1752, 281).

> *Circulation comes to be carried on by a new wheel, which it costs less both to erect and to maintain than the old one'* (WN, II, ii, 292).

So, Smith's first views on paper money are exposed in this context: as a means for economizing a part of the circulating capital – money – that represents a subtraction of production and revenue.

It is interesting to make a step-by-step register of the arguments and examples that succeed the presentation of bank notes as a good instrument for economizing money. Smith first of all remarks on the 'fortune', 'probity', and 'prudence' of bankers. Bank credit implies confidence on the bankers.

Besides, fractional reserve banking is immediately introduced.[25] A country can economize this sort of circulating capital – gold and silver – only if fractional reserve banking is allowed for. Anyhow, the final result of this power of multiplying circulating media is that a certain sum in metallic money '*can be spared from the circulation of the country…'* (WN, II, ii, 293); which reinforces Smith's angle, the elimination of an expensive circulating media.

Limits to the issuing of bank notes follow suit. According to Smith, the quantity of money in circulation – notes plus coins – cannot exceed the amount required for circulating the country's 'annual produce'. Money will overflow the 'channel of circulation' if an excess of currency is thrown into it. There is no means of keeping in circulation an excessive amount of bank notes.[26]

Before we consider the possible destination of these overflows, it is interesting to note that Smith was touching, without acknowledging, a momentous eighteenth century economic theme, namely, the possibility of furthering trade by means of an infusion of currency. Smith's formula is simple: once the circulating media cannot exceed what is required by the annual produce, *'... that annual produce cannot be immediately augmented by those operations of banking.'* (WN, II, ii, 293). This formula moves Smith away from the economists, well represented by John Law (Law, 1705), who envisaged the possibility of furthering trade by means of an adequate supply of paper credit.[27]

Smith's main point is the impossibility of absorbing the excessive currency pushed into the 'channel of circulation' by the operation of banks. The excessive currency will be automatically drained into the bank's coffers, and will not remain 'idle': it will seek opportunities abroad. Smith is explicit in admitting that this money – necessarily coins – will be utilized in trade, either carrying trade or import of commodities into the country. Carrying trade's profits will represent an addition to the 'neat revenue' of the country – an issue to be dealt with extensively in Book IV.

In analyzing the import of commodities for internal consumption, Smith introduces some interesting notes on the type of commodities imported, luxuries versus goods that 'promote industry', as materials, tools etc. The later are positive, whereas the former induce *'... prodigality ... increase(s)*

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(25) *'Though he has generally in circulation ... notes to the extent of a hundred thousand pounds, twenty thousand pounds in gold and silver money, frequently, be a sufficient provision for answering occasional demands.'* (WN, II, ii, 292-93)

(26) In many passages of WN, Smith expresses his agreement with the utilization of paper money in Pensylvania. He insists that Pensylvania's authorities were prudent and, anyhow, any possible excess of paper money would not be absorbed by circulation. The most expressive passages are in Viii (Of Publick Debts).

(27) A brief mention to Law's (1705) proposal of reforming Scottish banking is in WN, p. 317.

expence and consumption without increasing production ... (Is) in every respect hurtful to the society.' (WN, II, ii, 294). Indeed, a tremendous blame on luxury, only attenuated by the conclusion that the import of luxuries will be naturally constrained.[28]

It is important to note that in this context Smith is not debating external trade in general. He focuses exclusively on imports that are being propelled by an original overissue by banks, gold and silver *'... being forced abroad by those operations of banking'*. (WN, II, ii, 295) Possibly for this reason, there are no mentions to balance of payments disequilibria, and to their consequent impacts on the overall quantity of money in circulation, a classical debate issue in the eighteenth century monetary agenda. Smith's emphasis lies on the individual initiative of banks.[29] In the end, they do not affect circulation, but they may impact external trade.

The entirety of Smith's approaches to money in Book II Chapter II is intertwined with long comments on Scottish banking, complemented by a couple of comments on the Bank of England. Smith credits the favorable economic performance of Scotland in the eighteenth century in part to Scottish banking. Intertwined with the comments on Scottish banking are some very general analytical statements, as the necessity of subtracting money from circulating capital, if we are to estimate the quantity of industry mobilized by the circulating capital, or to estimate the 'real revenue' of workmen. As mentioned, '*When paper is substituted in the room of gold and silver money…*' (WN, II, ii, 296), the other components of circulating capital may be enhanced, thus favoring industry.

Money supports circulation, and that is all. The possibility of furthering trade by a loose circulation, supplemented either by coins or by paper money, is out of question, as it becomes clear in this canonical statement:

> *The whole paper money of every kind which can easily circulate in any country never can exceed the value of the gold and silver, of which it supplies the place, or which (the commerce being supposed the same) would circulate there, if there was no paper money* (WN, II, ii, 300).

Again, gold and silver would be thrown out of circulation, ultimately going abroad. Smith now adds to the previously admitted impacts on imports the possibility that the run upon the banks might end up in alarm. An exposition of banking mechanisms, in which Scottish banks and Bank of England's operations are contrasted, substantiates a new overview, directed towards another anomaly: the possibility of sending coins or bullion abroad, or of selling bullion to the Bank of England at high prices. The rise of the price of bullion is in this situation seen as an outcome of the *'... over-trading of some bold projectors in both parts of the united kingdom…'* (WN, II, ii, 304), which produced an excessive circulation of paper money, and its consequences.

The adherence to the real bill doctrine is firmed up in this precise context:

> *When a bank discounts to a merchant a real bill of exchange drawn by a real creditor upon a real debtor, and which, as soon as it becomes due is really paid by that debtor; it only advances to him a part of the value which he would otherwise be obliged to keep by him unemployed, and in ready money for answering occasional demands. The payment of the bill, when it becomes due,*

(28) *'... though the principles of common prudence do not always govern the conduct of every individual, they always influence that of the majority of every class or order'* (WN, II, ii, 295).

(29) Attention: the initiative of internal (national) overissue. The initiative of engaging in external lending – a central issue in Steuart's (1767) analysis – is not considered.

> *replaces to the bank the value of what it had advanced, together with the interest. The coffers of the bank, so far as its dealings are confined to such customers, resemble a water pond…* (WN, II, ii, 304).

In the end, banking activities, even though meritorious, do not 'augment the capital of the country'. They mobilize a part of the 'dead stock' of particular capitalists into 'active and productive stock'. Similarly, gold and silver, 'dead stock', are replaced by paper money. Circulating medium, which was previously compared to a wheel, is now compared to a highway, which circulates commodities but does not produce them. Banking builds *'… a sort of wagon-way through the air…'* (WN, II, 321), allowing the transformation of previously occupied land into 'good pastures and cornfield'. There are limits, however, to the impulse provoked by banking activities, as far as, in a sort of Humean caution, Smith concludes that commerce and industry are never entirely secure *'... suspended upon the Daedalian wings of paper money, as when they travel about upon the solid ground of gold and silver*' (WN, II, ii, 321).

Restraints upon emission, as the prohibition of issuing low value bank notes, are seen as precautionary measures that, although violating natural liberty, are admissible: *'... those exertions of the natural liberty of a few individuals, which might endanger the security of the whole society, are, and ought to be, restrained by the laws of all governments…'*.(WN, II, ii, 324) All in all, however, and complementarily to some regulation, competition among banks will favor self-discipline, and will lessen the consequences of individual companies failures.

Chapter III Book II, on productive and unproductive labor, presents some arguments that coincide, or even reinforce, Smith's previous passages on money, in Book I chapter XI, and in Book II chapters I and II. Chapter III, however, adds new angles to Smith's approach to money. First of all, when distinguishing productive and unproductive labor, Smith insists on 'durability'. The output of productive laborers 'lasts for some time'.[30] As known, 'durability' was a property always associated to metals and to money: precious metals became money because of their durability (among other properties). In Book II, chapter III, Smith remarks on the durability of certain works (monuments, houses, furniture, the clothing of the rich….) associated to luxury expenditure, adding that durability favors frugality. By its turn, frugality (parsimony) is directly associated to accumulation of capital. However, and as seen, coins are a part of the circulating capital that, although indispensable to commerce, subtracts from the productive potential. Which allows us to raise a question, concerning accumulation of capital: what is the effective role of the ultimate durable, money?

Second, money circulates the 'consumable goods' of a country. Smith's concern is 'circulation' and 'quantity of money in circulation', typical late seventeenth and early eighteenth century debate topics. If by any reason the 'annual produce' diminishes, circulation shrinks and money becomes available to be sent abroad. In Book II chapter II, Smith had already speculated on gold and silver sent abroad, once paper money has expelled coins from circulation. In that situation, Smith was contrasting paper money and gold and silver. In chapter III, a new reason for expelling gold and silver is presented: contraction of production. Gold and silver are sent abroad as a

(30) *Labor '... fixes and realizes itself in some particular subject or vendible commodity ... which lasts for some time ... It is as it were, a certain quantity of labour stocked and stored up...'*. (WN, II, iii, 330). Later, in Chapter V, referring to productive laborers, Smith does not recall the durability of commodities, but the fact that labor *'... fixes and realizes itself in the vendible commodity ... adds to the price the value of their own maintenance...*' (WN, II, V, 362).

consequence (and not as a cause) of declension. And vice-versa: once production expands, more money will be needed. In this case, part of the rising produce will have to be destined to the importation of gold and silver. The upsurge of metals will be the effect, and not the cause, of prosperity.

It is quite clear that Smith is sharping arguments in his crusade against the 'mercantile system's' hypostatization of wealth in metals. However, and on the other hand, in this precise context Smith is attributing balance of trade consequences directly to monetary causes (overissue of bank notes), or to real causes (contraction/expansion of production) that have a monetary impact. Which poses us two questions, to be later developed. First, in these specific passages on money, to what extent do Smith's imports and exports approximate a Humean-like price-specie-flow mechanism? It seems that the absence of price movements and of any concern with exchange rate shuns away the price-specie-flow mechanism. Second, to what extent are these passages on imports related to an ampler approach to balance of payments, once the admission that the overall supply of gold and silver was regulated by the balance of payments results was common knowledge among economists? Avoiding for the moment a more thorough review of Smith's findings on exchange rate and balance of payments, it is tempting to conclude that Book II's money-related passages remain restricted to two simple points: money is proportionate to consumable goods, and money will be brought from abroad for its cost, whenever necessary. Not to mention the repeated and many-sided approaches to the permanent anti-mercantilist message: metals in circulation never represent 'the real wealth and revenue of a country'.

The fact is that Smith is in Book II dedicated to capital, and not specifically to money. The treatment of interest, in chapter IV, reinforces this perception. For Smith, '*Stock lent at interest is always considered as capital to the lender'* (WN, II, iv, 350). At stake is prodigality versus frugality (at the borrowers side), as well as the admission that loans are not effectively about money – what the borrower wants is money's worth. Additionally, money circulates frequently, so that a determinate amount of money buys (passes through) a succession of goods. Anyway, accumulation of capital and the growth of stock tend to reduce profits, and interests.

Smith denies the hypothesis that the lowering of the rate of interest had been a consequence of the plenty of money, in the wake of West Indies discoveries (Locke, Law, Montesquieu are singled out as holders of this hypothesis). Contrariwise, and appealing to Hume's authority, he associates plenty of money to prices only. But even in this sort of retreat to the safe nest of the quantity theory, decisive is that we are back to the contrast between 'real' and 'nominal' variables. Money loses its value relatively to commodities, or commodities become cheap, a contrast that leads Smith into a too much insisted upon, and apparently naïve, formula: interest has to be considered relatively to capital. If the value of the capital has plummeted, 'nominal' interests have to be adjusted to the new values, simply because the rate of interest is a proportion between interest and capital. On the other hand, plenty of metal implies no more than high prices, since *'The capital of the country would be the same'* (WN, II, iv, 355).

Once prices rise, the distinction between nominal and real variables is permanently at the backdrop. Wages, as prices, as the capital of the country, remain the same, despite their expression in many more bits of coins. Yet, the movement produced by a reduction of prices is not symmetrical. Smith admits that, once commodities become cheap (the relation commodities/money rises), similar

quantities of (nominal) capital would command more labor, pumping real wages. The competition among capitals pushes profits down, which reduces interests.[31]

As known, Smith is not against limiting the rate of interest by law, once these limits have the market rates as parameters. Smith's approach to interest leads him again to the territory of parsimony, incentives to industry, solvency of potential borrowers, not to mention the structure of society – lazy landowners versus capitalists and laborers, and industrious people in general – and the moral constraints of each stratum.

In short, the distinction between nominal and real variables, and the impacts of prices and interest rates on the accumulation of capital, are Smith's concerns in his final synthesis on 'the different Employment of Capitals'. We should not forget the distinction among the different possibilities of employing capital – agriculture, manufacture, trade -, in its connections to productive labor, because in this context Smith naturally relates external trade and carrying trade to movements of metals, without pointing at the relations between supply of money and balance of payments. Smith's final concern is simple: the country can apply its capitals in any trade, but internal trade is more advantageous to the country. Anyway, surplus produce must be exported.[32] Whenever excessive, capital ends up being exported as well: *'... the surplus part of it naturally disgorges into the carrying trade…'* (WN, II, v, 373). Even though less favorable to internal industry, carrying trade *'... is the natural effect and symptom of great national wealth; but it does not seem to be the natural cause of it.'* (WN, II, v, 373). Anticipating some elements of his criticism of the 'mercantile system', Smith avoids any deeper analysis of the monetary aspects of international trade.

5. Monetary aspects of the criticism of the 'mercantile system'

Book IV, *Of Systems of political Oeconomy*, the epitome of Smith's criticism of the commercial system, also shelters arguments on money. In this way, spread amidst Smith's criticism of Mun and of the Midas fallacy, one can find complements to some of the already disclosed views on money and credit. It should be also be taken for granted, in a work so masterly conceived and executed as WN – all parts coherent, each Book complementing the others –, that Book IV stands out as a specially integrated collection of the many economic categories exposed so far, or as a synthesis of Smith's theoretical *aperçus*. Our approach to the monetary subtleties of Book IV will be attentive to this general pattern: search of coherence with the monetary passages of previous Books, and attention to possible additions to Smith's monetary views.

Chapter I, a summary of the criticism of the 'mercantile system', leads us to the following monetary issues: money functions (and conception of money), durability, difference between coin and metals, quantity of money in open versus closed economies, money versus commodities in an open economy framework. Chapter III will be especially instrumental in allowing a further approach to the exchange rate.

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(31) *'The interest of money, keeping pace always with the profits of stock, might … be greatly diminished…'* (WN, II, iv, 356).

(32) See note 4: *'When the produce of any particular branch of industry exceeds what the demand of the country requires, the surplus must be sent abroad, and exchanged for something for which there is a demand at home…'* … *'The surplus part of them, therefore, must be sent abroad…'* (WN, II, v, 372).

In what refers to money functions and conceptions of money, it is worth noting that, immediately in paragraphs I and II (p. 429-430), while presenting and criticizing the 'popular notion' that wealth consists in money, Smith restates the '*double function of money, as the instrument of commerce, and as the measure of value'* (WN, IV, I, 429). As it was well established in *Lectures on Jurisprudence*, and following the monetary literature of the two preceding centuries, Smith was well aware of the necessity of a 'measure of value'. For him, money was not only 'instrument of commerce'. Significantly, in illustrating his point, Smith says that the Tartars and other shepherd people, who did not use money, had cattle as an 'instrument of commerce' and 'measure of value'.[33]

Durability of money is a matter also reminded. Smith refers to Locke, who would have distinguished between money and other 'moveable goods'. The latter are of a 'consumable nature, whereas money is not 'wasted and consumed'.[34] Smith argues that 'durability' would have strengthened the (wrong) perception that gold and silver are synonym for wealth. As seen above, Smith had in other situations introduced 'durability' versus 'perishability'; for instance, in discussing price determination and varieties of capital. The contrast between perishability of commodities and durability of money comes afloat in many passages of Book IV chapter I.[35]

It is worth stressing, from the beginning, a point that was essential to a century of monetary debates on scarcity of money, money outflows, melting down of coins: the distinction between gold and silver, and coin proper. This point will be later approached from other angles, but it is important to observe that in many instances of his fierce criticism of the habit of taking gold and silver as wealth, Smith himself does not distinguish coins from metals. For instance, when commenting on the prohibition of exporting metals Smith does not differ 'money' from 'gold and silver'. Both are symbols of wealth, and it is as if prohibitions were applied to both – to export coins and to export metals;[36] or as if the difference between mint price and market price for gold and for silver were of no consequence; not to mention the differences (in value) between coin and metals - issues dealt with, or at least acknowledged, in other passages. We will be back to this point, that is essential to distinguish Smith from many contemporaries, as Harris (1757-58) and Steuart (1767), and from successors, as Ricardo (1810).

Yet, this very point – metal versus coin – is one of the components of a sort of longstanding monetary debate, that sharpened the arguments of the economists at least since Petty: the adequate quantity of money in circulation.[37] Smith had already addressed this point, and returns to it in a Montesquieuan framework: in a closed economy, any quantity of money can carry circulation out adequately. The available quantity of pieces will impact exclusively prices. In an open economy, contrariwise, metals are needed. Smith is debating prohibitions or allowances to the exportation of

(33) On cattle, or lamb, as 'measure of value' in pastoral societies, a forceful argument is in Turgot (1766).

(34) As very well argued by the editors (Note note 7, p. 430) 'durability' is more likely to be found in Locke's *Essay on Civil Government* (Locke, 1689) than in Locke's monetary tracts (Locke, 1692; Locke, 1696).

(35) *'The greater part of goods besides are more perishable than money, and he may frequently sustain a much greater loss by keeping them'* (WN, IV, i, 438).

(36) Which, by the way, was not always the case. Prohibition to export coin was in general much stricter.

(37) On this see Coutinho (2012).

money and metals, a typical topic of the seventeenth century mercantilist quibbles, but he adds an argument that – although very sensible to Mun and to other economists preoccupied with state power – was not so frequent in monetary debates, viz. wars and army financing. Money – said the economists (*apud* Smith) – has to be necessarily available, in order to keep the country prepared to fulfill its military compromises.[38] This 'popular notion' is the foundation of policies envisaging the internal accumulation of metals, which include prohibition to exports, as in Spain and Portugal, and even in ancient France and England. It is interesting to note that, a little further (paragraphs 20 and 21, pages 440 and 441), Smith denies the necessity of accumulating gold and silver for waging wars, under the argument that '*Fleets and armies are maintained, not with gold and silver, but with consumable goods*' (WN, IV, i, 440), and, as Smith specifies, '*... some part of the annual produce of its manufactures; or ... of its annual rude produce*' (WN, IV, i, 441) can be sent abroad – which implicitly implies, exports will provide gold and silver to pay the troops.[39] Of course, this is a historically inaccurate account, since wars required an extra amount of international currency, posing both fiscal and external constraints to the countries. In further passages Smith would be more realistic, examining the effective cost of wars, public debt, profits of external trade in war periods, long-term balance of trade adjustments. But in the canonical Chapter I of Book IV, in order to deny the Midas fallacy and the (very reasonable) argument that wars press for metals, Smith ends up recurring to an untruth statement – troops are sustained with goods –, and proposing a truism – exports will provide metals.

Smith lists Mun's objections to the prohibition of exporting metals: i) metals purchase goods that will be re-exported; ii) it is anyway difficult to enforce such a prohibition, and the only consequence will be to alter the rate of exchange, against the country; iii) as a consequence, let us take care of the balance of trade. Smith's response to Mun's objections interests us because, in the rejection of their 'sophistical' elements, metals and commodities in general are plainly equated. According to Smith, as much as freedom of trade never fails to provide the country the needed commodities, it will provide sufficient money. Additionally, Smith admits that the elevation of the exchange rate will raise the prices of foreign goods, thus contributing to reduce consumption and to attenuate balance of trade deficits. Here we have an approximation to the price-specie-flow mechanism, although lacking depth in the treatment of the exchange rate.

In my view, central element in Smith's arguments is the approximation of money to commodities. This approximation is detailed in a long example, which includes money and wine, England and Portugal (wine versus gold), and Spain and Portugal (the inefficacy of prohibiting the export of metals). The example is complemented by an observation, already presented in Books I and II, and to be repeated in Book IV, on the facility of transporting metals and, as a consequence, the emergence of an international market for metals.

Curiously, since we are speaking of commercial societies, Smith adds to his arguments on how inexpedient any concern with lack of money in circulation is, the possibility of recurring to

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(38) *'Every such nation, ..., must endeavour in time of Peace to accumulate gold and silver, that, when occasion requires, it may have wherewithal to carry on foreign wars'* (WN, IV, i, 431).

(39) In Viii (Of Publick Debts), Smith proposes a much more interesting (and realistic) view for war financing, that includes taxation and public debt.

barter,[40] and an offhand – because fleeting, lacking development – mention to credit and to paper money: *'Buying and selling upon credit ... will supply it... A well regulated paper money will supply it ... with some advantages'* (WN, IV, I, 437).

However, in his combat to the reasoning of the mercantilists, Smith's main argument is the equivalence between commodities and money. Those who have commodities to sell and/or access to credit, will get money.[41] Laments on scarcity of money are typical of spendthrifts, who have no goods in stock and no access to credit. Additionally, Smith examines the money/commodities flows of merchants, saying that individual merchants may become short of money, and overstocked with perishable goods, because their capital is composed by goods mainly. Contrariwise, and as seen in Book II, money makes a limited part of the circulating capital of any nation.

In fact, in Book IV Smith makes a restatement of one of his mainstay propositions - the quantity of money in circulation is regulated by the value of the commodities in circulation[42] -, adapted to the context of his criticism of the Midas fallacy, and enriched by the conception of capital presented in Book II. One of its central elements is that plate, as well as public and private treasures, is an irrelevant treasure trove in commercial societies. It is interesting to note that, in this context, as in Smith's frequent contrast between ancient and recent modes of personifying wealth, as well as in his general criticism of the 'mercantile system', metals are frequently assumed as money, and vice-versa. Specific mentions to, and the establishment of differences between, money and bullion, emerge in diverse passages, but the general tone of Smith's criticism of the commercial system takes money and metals as synonyms. The conflation of metals and money evades crucial points of reality, and of the monetary economics of the times, such as coinage and seignorage, mint price, market versus mint price of bullion, debasement; all points exhaustively debate by economists concerned with episodes of 'scarcity of money'. The fact that these points were out of Mun's (1664) concern, does not mean that they were ignored by the great majority of monetary tracts, at least since Locke (1696). Indeed, the distinction between bullion and coin was the cornerstone of Steuart's (1767) economics, as would be of Ricardo's (1810) monetary economics. Additionally, all those just mentioned points have a bearing on the establishment of exchange rates, a topic that, as seen, had been already dealt with in WN,[43] and to which Smith would soon come back with more attention. Major questions to be posed are if Smith's realization that bullion differs from coin effectively impacts his monetary economics, and if the overwhelming insistence on the equivalence between merchandise and money negatively affects the overall development of Smith's monetary economics.

Leaving these major points aside for the moment, let us acknowledge that all of a sudden Smith adds to the three stocks of gold and silver already accounted for – coins, plate, treasures – *' ... bullion alternately imported and exported for the purposes of foreign trade'*. (WN, IV, i, 443), thus

(40) *'But if money is wanted, barter will supply its place, though with a good deal of inconveniency'* (WN, IV, i, 437).

(41) Or the contrary: '*Money, like wine, must always be scarce with those who have neither wherewithal to buy it, nor credit to borrow it*' (WN, IV, i, 437).

(42) '*The quantity of coin in every country is regulated by the value of the commodities which are to be circulated by it;...'*. (WN, IV ,i, 440).

(43) Smith says in BI, chapter XI, that the effective metallic content of the coins affects the exchange rate.

separating bullion from 'national coin'. In this precise context, bullion is admitted as *'the money of the great mercantile republick'*.[44] Smith also adds that the 'money of the mercantile republick' might have contributed to finance the 'late war'; anyway, the 'money of the mercantile republick' had in its origins national commodities. To conclude, and as a complement to his chapters on the benefits of division of labor (internal and international), Smith emphasizes that the great benefit of external trade lies not in the accumulation of metals, but in the development of exchanges itself – a complement to his established view on the advantages of division of labor.

It is in Chapter III, Book I (Restraints upon Importation) that Smith develops his more thoughtful approach to the exchange rate – how it is determined, how it is affected by the state of the national coins, and by coinage procedures. Additionally, insights on the functioning of a metallic monetary system are a valuable component of Smith's disquisitions upon the Bank of Amsterdam and the Dutch monetary system. Smith, of course, chastises the network of protective taxes and measures every country erected in order to protect its own manufactures. Defended by the 'mercantile system' as an able mechanism to block the evasion of bullion, these mechanisms – based on '*national prejudice and monopoly*' - are seen not only as detrimental to the economy, but *'unreasonable ... even upon the principles of the commercial system.'* (WN, IV, iii, 474). This unreasonableness rests on three factors. The first and the second are related to triangulations, or to the multiple commodities flows crossing multiple frontiers; that is, external trade is not bilateral, but rather multilateral. The third factor lies on the uncertainty of the criteria normally used to ascertain the final balance of trade results between two countries. The two usual metrics to ascertain this balance – customhouse records and the course of exchange – are uncertain.

In questioning the exactness and effective coverage of customhouse records, Smith was echoing a long standing eighteenth century choir. On the other hand, in debating how was the exchange rate effectively determined, Smith – without being properly original – uncovers his approach to such a crucial matter. According to Smith, the 'ordinary course of exchange' should be taken as an effective indication of the 'ordinary state of debt and credit' between two countries, so that when the exchange is 'at par' one can say that debts and credits compensate themselves. However, multiple flows of commodities and money, crossing multiple commercial partners, affect the determination of the exchange rate, so that the 'real exchange' differs from the computed exchange, blocking us to infer precise conclusions from this indicator.

Smith considers three factors affecting the 'real exchange'. The first one is the real state of the coins: wear and tear of coins affects the exchange rate.[45] As we have seen, the average weight of the coins had been formerly accepted by Smith as an important element in determining the value of money. The second factor is the rate of coinage – access to any country's money implies accepting the seigniorage charged by its mint house.[46] The third factor is bank money, since '*what is called bank money is always of more value than the same nominal sum of common currency.'* (WN, IV, iii, 479) The existence of bank money evidences the differences between 'money' and 'currency' – *'Bank*

(44) Steuart (1767) considered bullion 'international money'.

(45) Steuart (1767) adopts the same formula: the exchange rate is based on the average weight of the circulating medium.

(46) Again, a solution anticipated by Harris (1757-58) and Steuart (1767).

money, over and above both its intrinsic superiority to currency, and the additional value which this demand necessarily gives it ...' (WN, IV, iii, 481) – and evidences, most of all, the hazards of currency in metallic systems; all of them affecting the exchange rate. As mentioned, other economists, most of all Steuart (1767), had already examined at length the two first factors, state of coins and coinage charges.[47] As to the third factor - bank money - it offers Smith an opportunity of pondering on the difficulties in conducting internal and external monetary affairs under metallic systems subject to factors such as different rates on coinage, debasement, and the real state of the circulating media.

In short, the passages on bank money represent Smith's most detailed incursion into the realities of monetary affairs. It is interesting that Smith has opted for examining in detail several monetary topics amidst his diatribe against protection in international trade. And it is suggestive that in the end, and as developed at length in Part II of Chapter III, Smith is led to conclude that the advantages to be got from external trade can be ascertained only by the impacts on produce and revenue in every country, and not by the momentary result of bilateral exchanges. Here, Smith recurs to arguments first examined in Book II, concerning internal versus international trade, manufactures versus raw materials, carrying trade versus round about trade, etc. What really interests any nation – is the conclusion - is not its balance of trade, but the 'balance of annual produce and consumption', which measures the effective accumulation of capital in any society.[48]

The same pattern – monetary topics developed in the context of other debates – is followed in Book IV, chapter V, in the assessment of the impacts of bounties upon exportation on production. Here, Smith contrasts bounties upon manufactures and bounties upon the exportation of corn. Bounties upon manufactures stimulate the exportation of corn, whereas bounties upon corn just raise the money price of corn, and not its real value. As a consequence, bounties upon corn do not raise the real revenue of farmers or landlords. Corn has a 'real value' that cannot be affected by its money price; a 'real value' associated to the quantity of money it can maintain. Sustaining and developing concepts related to his theory of value and prices, Smith says that *'The real value of every other commodity is finally measured and determined by the proportion which its average money price bears to the average money price of corn'*. (WN, IV, v, 516) It is in this sense – 'real value' versus 'nominal value' –, and pointing at another theme, viz., restrictions to the free movement of metals by Spain and Portugal, that Smith is led to conclude: '*The bounty upon the exportation of corn necessarily operates exactly in the same way as this absurd policy of Spain and Portugal.'* (WN, IV, v, 513-14). That is, Smith finally points at the effects of the level of gold and silver detained by a country upon the money price of its commodities, and upon external trade.

In examining the effects of Portugal's and Spain's policies of prohibiting or taxing gold and silver exports, Smith concludes that these policies will not deter the outflows of gold and silver. Ultimately, it is the annual produce that determines the metal to be retained by each country. However, Spain and Portugal, through taxes and prohibitions, built dams that in the end elevate the final level

(47) But Steuart (1767) integrates international flows of capital, most of all lending and borrowing, to the determination of the exchange rate. Smith does not consider all Balance of Payments (to use Steuart's terms) components in his analysis of the exchange rate.

(48) *'This balance of produce and consumption is entirely different from, what is called, the balance of trade' ... 'may be constantly in favour of a nations, though what is called the balance of trade be generally against it'* (WN, IV, iii, 497.

of the metals detained within the country. The consequences are high price of commodities, and discouragement of agriculture and industry. As a consequence, stimulus to imports from other countries; and, symmetrically, a boost to exports to Iberian countries, to be profited by other countries. The clearest enunciation of the price-specie-flow mechanism in WN, as a byproduct of an assessment of the effects of bounties.

Illustrations around the case of Spain and Portugal, the ultimate providers of gold and silver to the rest of the world from 1550 to 1770, were abundant in WN, as well as in other political economy tracts.[49] Smith has in fact another Iberian illustration as one of his favorites: the special agreements between England and Portugal, firmed up in 1703, envisaging the exchange of Portuguese wine by British woolen products. As known, Smith abhors the diversion of England's imports of wine, from its natural partner, France, to Portugal, favored by a special commercial treaty. In Book IV, chapter VI (Of Treaties of Commerce), he goes further and denies the current opinion that the 1703 agreement implied that British gold came in its entirety from Portugal. In his opinion, the two countries' balance of trade was leveled. But, even – for the sake of reasoning – if British gold came from Portugal, it would not remain in the island, it would search products abroad. In this case, it would be preferable to entertain direct export-import relations with the envisaged countries, instead of making triangular operations with Portugal. Besides, Britain would get gold from other countries anyway, since *'Gold, like every other commodity, is always somewhere or another to be got for its value by those who have that value to give for it…'*(WN, IV, vi, 548).

In chapter VI, by the way, Smith returns to coinage, admitting that a rate on coinage elevates the price of coin relatively to bullion. An unnecessarily high duty diverts precious metals from the mint, but a reasonable seignorage would not disturb regular flows of metal into the mint-house; to the contrary, it would diminish the profits of evaders *'... which arises from the difference between the quantity of bullion which the common currency ought to contain, and that which it actually does contain.*' (WN, IV, vi, 552) Differences lower than the seignorage would efface the profits of those involved in melting down coins. Not only did Smith converge with Steuart (1767) in this defense of the application of a mild coinage rate in England; most importantly, by means of this example, he effectively envisaged situations in which money is received by tale, and not by weight. This admission could have led, as in Steuart (1767), to different solutions concerning price and exchange rate, but Smith did not explore these possibilities. His approach remained attached to the association of value of money with weight. Again, and irrespective of remaining a non-developed theoretical point, the short passage on value of money fixed by tale, in Book IV, appears as a fleeting byproduct of a specific agenda; in this case, the effects of treaties of commerce.

The specific agenda of the monumental Chapter VII Book IV, Of Colonies also admits some insights into monetary matters; in this case, gold and silver mining in America. Smith analyzes the causes of the prosperity of colonies, and contrasts the success of agricultural exploration (in Part Second) with the misfortunes of gold and silver mining (in Part First). According to Smith, the Portuguese and Spanish colonization was impelled by avidity: to discover new sources of gold and silver. However, mining is a hazardous activity, only undertaken because individual cases of success

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(49) Harris' (1757-58) arguments were very similar to Smith's. The fate of Spain and Portugal, original possessors of gold and silver, was a current subject in economic literature. See, among others, Cantillon (1755).

blind the whole community.[50] Smith goes further and says that, at least in the Spanish colonies, no gold or silver mines are at present worth the working.

It is interesting to contrast Smith's pessimistic view on America's gold and silver mining with his digressions on rent of mines, in Book I, chapter XI. In Book I, in discussion were discovery of new mines, exhaustion of old mines, possibilities of generating rent to the owners and taxes to the state. In Book IV, mining activity is presented as a lottery, impelled by human avidity. Taking Book IV's mood, the question is, how to persevere, from 1550 until Smith's times, in an activity that is in itself ruinous? And how to admit that America's mining, that entirely altered the gold and silver supplies throughout the world, so much contributing to the monetization of economic life that brought about 'commercial society', was built upon non-profitable undertakings? In short, no convergence between Smith's 'economic' approaches to the rent of mines, in Book I, and his analysis of modern colonization, in Book IV.

6. Conclusions

In Book V, and particularly in its chapter on public debt, Smith qualifies and goes beyond the view on capital that presided Book II. Public funds are not seen as a new capital, but they admittedly add new options to proprietors of stock. In a way, the passages on the Bank of England, and on the contrasts between the activities of the Bank of England and Scottish banking, had already situated lending activities, and thus credit, as a regular economic activity in commercial societies. Moreover, the Bank of England's history, as pointed out by Smith, cannot be dissociated of regular lending to government. The admittance of Bank of England's thriving activities, both in holding public debt and in lending to private bankers and merchants, implies the acknowledgement of credit, and of the importance of paper money.

In Book V, Smith's comment on the establishment of a regular flow of resources to government by means of loans is marked by two concerns.[51] One of them is the preoccupation with the impacts of public indebtedness over political equilibrium, social structure, tax burden, state solvency. In this sense, Smith shares Hume's pessimism on the likely consequences of a permanently raising public debt. Book V in its totality, and Chapter III specifically, are crossed by this preoccupation with the long-term perspectives of political and social equilibrium. The other concern is the comparison between the advantages/disadvantages of alternative sources of state funding, or the comparison taxes versus loans. One and the other mechanism of financing government activities had different impacts on government and society, and led to different economic and social arrangements.

Anyway, it is clear that Smith envisages public debt as a regular mechanism, organic to modern government and beneficial to merchants and manufacturers.[52] Commercial societies end up

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(50) *'Of all those expensive and uncertain projects, however, which bring bankruptcy upon the greater part of the people who engage in them, there is none perhaps more perfectly ruinous than the search after new silver and gold mines. It is perhaps the most disadvantageous lottery in the world,...'.* (WN, IV, vii, 562).

(51) A good review of Smith on public debt is in Okan (2017).

(52) '*A country abounding with merchants and manufacturers, therefore, necessarily abounds with a set of people who have it at all times in their power to advance, if they chuse to do so, a very large sum of money to government'* (WN, V, iii, 910).

creating a new class of merchant-lenders, with all its impacts over social structure; for Smith these impacts are negative, from the point of view of the social equilibrium, inducement to industry, good management of land and stock in general.

Given Smith's detailed knowledge of British banking, and his admittance of permanent lending activities among merchants, or among merchants and bankers, questions to be proposed for further investigation are: What is the role of credit in WN? Are Smith's conceptions of money entirely compatible with credit?

Without responding to these question, this paper has proposed a sort of itinerary of the most conspicuous passages on money and credit in WN, trying to relate them to their contextual environment, or to associate them to the grandiosity of Smith's roadmap, and, whenever possible, to connect them with secular debates on money, acknowledged or not by Smith.

In simple phrasal propositions, I will try synthesize my preliminary understanding of money and credit issues that face us when reading WN, and that deserve a better understanding:

– Smith does not hold that money is most of all, let alone exclusively, 'means of exchange'. 'Unit of account', as well as store of value, are clearly part of Smith's mindset. In my view, even though clearly admitted, money as 'unit of account' receives a poor treatment in WN. Smith poorly debated debasement, that at least until the early 1700s was a key element to the understanding of the central role of 'unit of account' in metallic monetary systems.

– Although the distinction between bullion and coin surfaces WN's text, and stimulates some propositions (on duties on coinage, for instance), the insistence in characterizing money as 'metal' harms the necessary dissociation between bullion and coin. In the same line, the insistence on money as 'commodity' blocks a deeper understanding of what money really is, in a commercial society.

– Exchange rate is an underexamined point in WN. How is the exchange rate effectively determined, and how arbitrage operates in such a crucial market, are blind spots in WN. Possibly, Smith's very simple vision of the complex of transactions involved in any balance of payments harmed his understanding of the exchange rate determination. Of course, external loans are a missing element in WN.

– Smith's special inclusion of money among the components of 'circulating capital', as well as the analogies between money and fixed capital, although brilliant, conduce to the blind alley of envisaging paper money as a means of economizing capital. This simple vision compromises the stretch of Smith's view of paper money, by extension blocking a full understanding of credit.

– 'Money price' and 'real price' are central categories of Smith's theoretical system. Although 'real price', and its connection to labor (commanded), is a well-studied component of WN's theory of value, 'money price' is not so much. And 'money price' is crucial for two issues that are central to the understanding of the role of money in WN: i) 'money price' is connected to the weight of metal (the exceptions to this criterion were signaled in the paper), which hampers the distinction between money and bullion, and harms the understanding of the prerogative of governments of, up to a certain extent, 'stamp' the coins according to the conveniences of seignorage; ii) 'money price' versus 'real price' is the effective preoccupation of Smith in many disquisitions on money, spread all over WN. It is necessary to clarify Smith's understanding and uses of the contraposition 'money

price' versus 'real price', which demands a revision of the complexities of Smith's theory of value, in its relations to money.

– Smith's combat to the 'mercantile system' not only structures Book IV. It permeates the whole purpose of Smith's endeavor in WN, and is decisive for his understanding of metals and money, and for the permanent association of money (and wealth) with commodities. A close, but also ecumenical, approach to the impact and length of Smith's comments on the 'mercantile system' favors the understanding of the particular role of metals and of money in his system.

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