STEUART, SMITH, AND THE ‘SYSTEM OF COMMERCE’: INTERNATIONAL TRADE AND MONETARY THEORY IN LATE-18TH CENTURY BRITISH POLITICAL ECONOMY

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Abstract: Though contemporaries, Adam Smith and Sir James Steuart are commonly portrayed as men belonging to different eras. Whereas Smith went down in history both as founder of Classical Political Economy and patron of economic liberalism, Steuart became known as the last, outdated advocate of mercantilist policies in Britain. Smith himself was responsible for popularizing the notion of the ‘system of commerce’ as an approach to political economy that dominated British thought during the early modern period. As it evolved into a historiographical concept, the mercantile system came to be seen as an international trade theory grounded upon the fallacious doctrine of the favorable balance of trade. In the Wealth of Nations, however, Smith puts limited emphasis on international trade as a theoretical concern. His analysis of the subject, moreover, was marred by lack of analytical clarity, which caused him to be chastised by some among his followers who adhered more enthusiastically to the free trade cause. Given Smith’s doubtful credentials as a free trade theorist, in this paper we try to analyze the reasons that led him and Steuart to be historically placed on opposite sides of the mercantilist divide. To do so, we analyze the works of both authors in depth, showing that their differences concerning economic policy have chiefly to do with the role of money in the economy. Additionally, we explore how early-19th century writers helped forge the intellectual profiles of both Steuart and Smith.

Keywords: free trade, money, mercantilism, Adam Smith, James Steuart

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1. Introduction

Even though Adam Smith was largely responsible for disseminating the notion of a ‘mercantile system’ as a catchphrase to designate a set of economic ideas and policies that had dominated early modern Europe, he did not, as is well-known, point explicitly to the writers and thinkers who represented this intellectual tradition. Apart from Locke and Mun, whom he singled to illustrate his main points¹, it was left for Smith’s followers to determine who belonged to the long lineage of wrong-headed authors who adhered to the ‘system of commerce’, as Smith termed it in the introduction to Book IV of the Wealth of Nations. Sir James Steuart, Smith’s contemporary and fellow countrymen, has long been associated with this canon. He was portrayed by John Kells Ingram (1888, p. 86) as the author of “the most complete and systematic survey of the science from the point of view of moderate mercantilism” in England, and by Jacob Viner (1930) as a late-exponent of the balance-of-trade doctrine. In a provocative article from 1984, Gary Anderson and Robert Tollison have characterized Steuart as the “the most mercantilist of the mercantilists” (p. 459). More recently, Alessandro Roncaglia has insisted that Steuart be classed “among the last representatives of mercantilism” (2005, p. 112), and Helge Peukert (2011), even though arguing the transition from Steuart to Smith to have been “more gradual and less fundamental” (p. 118), has described the latter’s Inquiry into the Principles of Political Economy as “the last defence of mercantilism” (p. 113). Despite the significant growth of

¹ Locke was charged with attributing to gold and silver the character of a ‘special’ kind of wealth (WN IV.I.3), whereas Mun symbolized, in Smith’s rendition, the undue concern with a favorable balance of trade, at the expense of domestic economic activity (WN IV.I.10).
Steuart scholarship in recent decades, the notion that he was one of the last members of a school of thought that was soon to be permanently debunked by Adam Smith still seems to hold a firm sway over our disciplinary consciousness.

However, a closer inspection of Steuart’s ideas raises several doubts concerning this traditional narrative. If we take the Smith-inspired reading of mercantilism as a system marred by a fundamental error in monetary theory – the so-called Midas fallacy, or the confusion between wealth and money – which led, in turn, to a faulty international trade theory – the favorable-balance-of-trade doctrine – the contrast between the two authors is not at all easy to establish. Regarding the latter, a debate has raged ever since the publication of John Stuart Mill’s *Essays on some Unsettled Questions of Political Economy* (1844) concerning deficiencies to be found in Smith’s account of foreign trade, pointing to how little he seemed to have advanced over his predecessors on this matter. Conversely, Steuart’s rich and well-informed discussion of money and credit in books III and IV of his *Principles* should quickly dispel any notions that his concern over the topic arose out of his inability to distinguish money from wealth. If Smith and Steuart were members of opposing theoretical camps, it would seem the true nature of their divergence must lay elsewhere.

We therefore propose, in this paper, to reexamine some of the evidence bearing on the place occupied by both authors in the history of economics. In section 2, we will deal with Steuart’s historiographical fortune in the hands of some of Smith’s early-19th century disciples, reconstructing the process through which he was turned into a late representative of the mercantile system, and seeking to identify which aspects of his thought led to this association. In section 3, we will then compare the decidedly mixed assessments of Smith’s

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2 Samar Sen’s 1957 monograph *The Economics of Sir James Steuart*, and Skinner’s editorial contributions to the 1966 edition of Steuart’s *Principles*, provided the first significant impulses for the revival of interest in Steuart. The publication of the *variorum* edition of the *Principles* in 1998 represented another landmark for scholarship on the subject. A representative sample of recent developments can be found in the volume of essays edited by Ramón Tortajada (1999). In the bibliographical essay appended to this volume, one can find references to the extensive Japanese scholarship dedicated to Steuart (pp. 303-5).
international trade theory by later economists with Steuart’s own achievements on the topic, showing there are little grounds for arguing that Smith introduced any groundbreaking analysis that established the case for free trade once and for all. Finally, in section 4, we will argue that a real source of theoretical divergence between them rested on their respective monetary theories. This did not stem, however, from Steuart being enthralled by the Midas fallacy; rather, he belonged to a long line of monetary analysis stretching all the way back to the 17th century, in which predominated a concern with concrete, policy-oriented discussions of the role played by money in the economy. Smith’s ‘victory’ over Steuart relied, in this sense, in the former’s refusal to acknowledge any significant role for money amid the fundamental laws of political economy. The paper will then conclude with some observations on how Steuart’s place in the history of economics reflects the construction of a disciplinary consensus in which money became stigmatized as an essentially practical, low-brow subject matter, and thus removed from the theoretical core of economics.

2. Steuart and the ‘system of commerce’

Despite Smith’s claim that “every false principle” in Steuart’s *Principles* would “meet with a clear and distinct confutation” in the *Wealth of Nations* (Corr. #132), it seems unlikely that he had Steuart in mind when drafting the famous description of the mercantile system that appeared in Book IV, Chapter I. As is well-known, Smith’s analysis of the theoretical principles underlying that system (as opposed to the policy measures inspired by it) is rather vague and caricatural3, hinging on the perpetuation of a ‘natural’ mistake – the confusion between wealth and money – through the actions of self-serving merchants who

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3 The tendency to subsume 300 years of Western European economic thought under a few unifying principles has proved long-lasting, both among those who propagated Smith’s critical assessment, and others, like Schmoller and Cunningham, who sought to rehabilitate mercantilism as a reasonable doctrine. For an overview of the historiographical debate on the theme, see Magnusson (1994, pp. 21-59). For vehement criticisms of the concept of mercantilism and its historiographical usefulness, see Judges (1939), Coleman (1957; 1980) and Blanc & Desmedt (2014).
managed to influence the course of public affairs (WN IV.i.10). Smith was not only familiar with Steuart’s work, he also knew him personally, and thus must have been aware that Steuart’s monetary thought could not be so easily dismissed. In line with what Keith Tribe has recently argued (2015, pp. 53-5), Smith’s disagreement with Steuart probably had to do with their different views on the constitution of the social order: the false principles that Smith wanted to refute in Steuart were those exhorting the statesman keep a constant and close watch over economic affairs, rather than relying on the “simple system of natural liberty” (WN IV.ix.51).

Even though Steuart is said to have despaired, upon his return to Scotland in 1763, at the extent to which the Glasgow mercantile community had already been converted to Smith’s free-trade principles, more recent scholarship has cast doubt on the oft-repeated notion that, whereas the Wealth of Nations was an immediate success, Steuart’s Principles quickly fell into oblivion. Analyzing British parliamentary procedures throughout the later decades of the 18th century, Kirk Willis has shown how Smith’s influence in the political arena was quite limited up to at least 1800, being mentioned much less often than several of his predecessors, such as Petty, Child, Davenant, Locke, and Tucker (1979, pp. 508-10). “Even twenty-five years after the publication of the Wealth of Nations,” he concludes, “the Houses of Parliament were largely indifferent to its tenets, suspicious of its truth, and uncertain of its applicability” (p. 554). Even more relevant to our purposes, Salim Rashid

4 Additionally, we may recall that David Hume – often regarded as responsible for delivering the death blow to mercantilism with his formulation of the price-specie flow mechanism – seems to have reacted positively after first becoming acquainted with the contents of Steuart’s manuscript (Skinner 1966, p. xlv).

5 Despite recognizing the “novelty”, “originality”, and “penetrating genius” of Steuart’s analysis, contemporary publications also manifested some skepticism towards his faith in the actions of an enlightened statesman in the sphere of economic affairs. As reported by Samar Sen (1957, p. 14), the Critical Review remarked: “Nothing ought to appear more uncontrolled or can be more permanent, than the principles of commerce; and nothing ought to be so independent of a statesman, because they are self-evident; and as they spring from mutual necessity, they can never be mistaken”.

6 This was stated by John Rae in his 1895 biography of Adam Smith, apparently based on a passage from the Anecdotes of the Life of Sir James Steuart, a biographical note written by George Chalmers and published with the 1805 edition of Steuart’s complete works. The Anecdotes, however, only mention a letter from 1777 in which Steuart remarks that “the Glasgow theorists” had already been convinced by Smith on the free importation of corn (1805, vol. 6, p. 379).
(1982) has conducted a comparative analysis of the reception accorded to Smith and Steuart in the most prominent British journals from the 1770s and 1780s, highlighting how difficult it is to establish a clear difference between the critical fortunes of their two works before Smith’s death in 1790. To Rashid, it was only between 1790 and 1815 that the tide began to turn in favor of Smith. During the latter’s lifetime, by contrast, “Sir James Steuart was not ignored, and the complex of ideas he represented remained of considerable importance”, whereas “Adam Smith was not hailed as a new prophet except by some few, but very influential, persons” (p. 78)\(^7\). Given his tainted public credentials as a Jacobite, it is perhaps not surprising that Steuart’s *Principles* did not become the object of high praise by influential patrons in Britain – but it would seem rash to infer from this that he was promptly swept aside as a mere spokesperson for an old-fashioned doctrine.

To the extent of our knowledge, the first explicit association of Steuart with the mercantile system appeared in the first edition of Say’s *Traité d’Économie Politique* (1803). In the ‘Preliminary Discourse’ opening the treatise, Say sets out to expound the object and method of analysis proper to political economy, opening the door to a foray into the history of the discipline up to the publication of the *Wealth of Nations*. When discussing the merits of Smith’s contribution, Say remarks: “It has been said that Dr. Smith was under heavy obligations to Stewart, an author whom he has not once quoted, even for the purpose of refuting him. These obligations do not seem at all evident to me” (2006 [1803], t. I, p. xxii). Say then argues that Steuart had adhered to a system previously adopted by Colbert, by “the English government”, and by “most other states of Europe”, according to which national wealth depended “on the amount of its sales to foreign countries”. After further arguing that,

\(^7\) More recently, Richard Sher (2004) has resorted to a book history perspective to qualify some of the revisionist claims advanced by Rashid and others. From his evidences, he draws the conclusion that, even during Smith’s own lifetime, the publishing fortunes of the *Wealth of Nations* compare favorably to most other scholarly works from its era, Steuart’s *Principles* therein included. His analysis, however, does not impinge directly either on the critical reception accorded to both works, nor on their respective influences in the political arena.
even though there were good elements in both the mercantile and the agricultural systems, their exclusive adoption presented serious inconveniences, Say attributed to Smith the refutation of “their principles, their consequences, and their means”. Having established Smith’s triumph, he then concluded:

If he [Smith] has not particularly refuted Stewart, it is from the latter not being considered by him as the father of his school, and from having deemed it of more importance to overthrow an opinion, then universally received, than to confute the doctrines of an author, which in themselves contained nothing peculiar. (Say 2006 [1803], t. I, pp. xxiii)

Say thus appeared to have rendered Steuart as a late advocate of the mercantile system, with small claims to originality. This picture was reinforced in later editions of the *Traité*, where Say labeled Steuart “the leading advocate of the exclusive system” (2006 [1843], t. I, p. 70). To him, Smith had created the “science of political economy” when he established that all wealth had its origins in human labor, and used this principle as the basis for all his subsequent analysis. This made it clear that “gold and silver coins” were only “but a small portion, of national wealth”, an inference that “first enabled Dr. Smith to ascertain, in their whole extent, the true functions of money” (2006 [1843], t. I, p. xxxviii). Nevertheless, these were additions to the argument that only began to be incorporated from the second edition (1814) onwards. In the first edition, Say makes no explicit mention to the ‘exclusive’ or ‘restrictive’ system throughout the entire Preliminary Discourse. He does, however, mention Steuart in a different context, only three pages into the text. After stating that Smith had managed to establish the distinction between *politics* – the science of government – and *political economy* – the study of the production, distribution, and consumption of wealth – Say argued that failure to distinguish between the two subjects had produced much confusion of ideas. “This is,” he concluded, “the reproach that can be made of Steuart, who has entitled his first chapter ‘Of the Government of Mankind’; it is the reproach that can be made of the sect of Économistes, and of J.J. Rousseau in the *Encyclopédie*” (2006 [1803], t. I, p. iii).
Say’s previously mentioned reference to Steuart can now be seen in a different light. His reservations sprang from Steuart’s dealing with political economy as part of a larger study on the principles of good government – in other words, as the province of the statesman. Steuart was not, at first, portrayed as a misguided theoretician who confused wealth with money, but rather as an analyst of economic policy who followed in the footsteps of Colbert and other European statesmen. This message was diluted in later editions of the *Traité*. Besides the insertion of several references to the ‘exclusive system’ – perhaps prompted by his contact with contemporary developments in English scholarship, to be discussed shortly – Say removed the allusion to the Physiocrats from his paragraph on Steuart, and with it the remark that there were useful elements in both the systems criticized by Smith. He also suppressed the reference to “the English government” and replaced it with “all the French writers on commerce” (2006 [1843], t. I, p. xxxix), thus placing Steuart more clearly as part of a *theoretical* tradition. While he ended up contributing, in this manner, to identify Steuart with the emerging image of the mercantile system, his original motivation seems to have been, like Smith before him, to discredit Steuart’s conception of an economic order in which the statesman should play a central role.

In England, the topic was picked up by one of Say’s most avid readers. The interest displayed by John R. McCulloch in retracing the origins of the discipline of political economy manifested itself early, during the lectures he gave in Edinburgh during the early 1820s, and was to follow him throughout the rest of his career – leading D. P. O’Brien to label him “not merely a pioneer writer on the history of economics,” but “an accomplished historian of economic thought (1995, p. v). This facet of McCulloch’s scholarship first appeared in print

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8 Steuart’s own method of analysis, and the role of general laws and concrete applications within it, has been the subject of some scholarly attention. Among works that touch on the subject more extensively, interested readers may refer to Skinner (1965; 1966; 1999), Kobayashi (1999), and Urquhardt (1999).

9 For a more detailed assessment of the references to Steuart found in Say’s *Traité d’Économie Politique*, see Tiran (1994).
in an 1822 article for the *Scotsman*\(^\text{10}\), being later incorporated into the entry on ‘Political Economy’ he wrote for the *Encyclopedia Britannica* in 1824 and, more extensively, into his *A Discourse on the Rise, Progress, Peculiar Objects, and Importance, of Political Economy* (1824). Even at this early date, McCulloch clearly exhibited a firmer grasp of the pre-Smithian literature on political economy than Say did, as shown by his detailed and richly illustrated account of some of the ideas found in 17\(^{\text{th}}\)- and 18\(^{\text{th}}\)-century texts (1824, pp. 20-53). His historical account of the evolution of political economy is also more sophisticated, relying on institutional constraints and forms of social organization to explain the relative neglect of the topic until recent times (pp. 4-9). The unifying thread in his narrative, however, is thoroughly Smithian:

> The once prevalent opinion, that wealth consists exclusively of Gold and Silver, naturally grew out of the circumstance of the money of all civilized countries being almost entirely formed of these metals. Having been used both as standards whereby to measure the relative value of different commodities and as the equivalents for which they were most frequently exchanged, gold and silver, or money, acquired a factitious importance, not in the estimation of the vulgar only, but in that of persons of the greatest discernment. The simple and decisive consideration, that all buying and selling is really nothing more than the bartering of one commodity for another [...] was entirely overlooked. The attention was gradually transferred from the money's worth to the money itself; and the wealth of individuals and of states was measured, not by the abundance of their disposable products [...] but by the quantity of these metals actually in their possession. And hence the policy, as obvious as it was universal, of attempting to increase the amount of national wealth by forbidding the exportation of gold and silver, and encouraging their importation. (McCulloch 1824, pp. 21-2)

McCulloch then proceeded to retrace the historical evolution of the mercantile system, from early and rudimentary attempts to prohibit the exportation of precious metals during the late Middle Ages through the maturing of the favorable-balance-of-trade doctrine in early modern Europe. In common, all its advocates held on to the notion that “gold and silver alone constituted wealth”, and thus sought to “monopolize the largest possible supply of the precious metals” (pp. 25-6). After an explanation of how merchants and manufacturers

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\(^{10}\) ‘Sketch of the Progress of Commercial Science in England in the Seventeenth Century, Part I’, *Scotsman*, 19 January 1822. This was intended to be the first installment in a series of articles on the subject, but the subsequent pieces were never published.
played on these erroneous conceptions to get restrictive measures approved in their favor, and how such prejudices continued to explain the popular appeal of some of the ideas underlying the system, we find the following footnote:

Melon and Forbonnais in France, Genovesi in Italy, Mun, Sir Josiah Child, Dr Davenant, the authors of the British Merchant, and Sir James Stewart, in England — are the ablest writers who have espoused, some with more and some with fewer exceptions, the leading principles of the Mercantile system. (McCulloch 1824, p. 33)

This is the only reference to Steuart to be found in the entire Discourse, and there are good reasons to believe McCulloch got this from Say. Despite the Smithian emphasis on the Midas fallacy as the unifying principle behind the mercantile system, the Discourse was more than a little inspired by Say’s Preliminary Discourse, as becomes even clearer in the abridged version included as an introduction to McCulloch’s Principles of Political Economy (1825). Here, the text fulfills the same purpose of Say’s Discourse, providing an overview of the evolution of political economy as a way of illustrating its proper object of study, and of advocating specific methodological commitments for the discipline. As pointed out by Keith Tribe (2015, p. 66), McCulloch begins the chapter with a definition of political economy derived directly from Say, and he later delves into some of the topics that were dear to the latter, such as the distinction between politics and political economy, and between political economy and statistics (1825, pp. 57-60). McCulloch even quotes Say in support of the statement that a mere knowledge of facts, without a theoretical understanding of their “mutual relation”, was not enough to found a science of political economy (p. 19). The striking similarity between the two texts was noted by Say himself: in an 1825 review of McCulloch’s Discourse, Say stated he would pass over several considerations regarding the “object, means, and history of political economy”, for these were issues “French readers had already noted in another preliminary discourse from which M. Mac Culloch has served himself much more often than he has cited” (1848 [1825], p. 263).
However, if there were many similarities, there were also telling differences. The distinction between politics and political economy, which appeared right at the beginning of Say’s Discourse, and provided the context for the first reference to Steuart, was relegated by McCulloch to the very last pages of his introductory chapter. And whereas Say saw the domain of politics in the study of “the relations existing between a government and its people, and the relations of different states to each other” (1803, p. iii), McCulloch thought politics examined “the principles upon which government is founded”, while the political economist should occupy himself “not of the constitution of the government, but of its acts only” [emphasis in the original] (1825, pp. 58-9). In later editions of the Principles, McCulloch would enlarge the field of political economy even further, arguing that too strict a separation from politics would reduce political economy to the statement of “a few barren generalities of no real utility” (1842, p. vii). The relevance of the discipline depended, for McCulloch, on taking account of the circumstances in which its principles operated:

We are aware that, in adopting this course, it may be said that we have stepped beyond the proper limits of the science, and encroached on ground belonging to the legislator and politician. But the truth is, that Political Economy and Politics are so very closely allied, and run into and mix with each other in so many ways, that they cannot always be separately considered (McCulloch 1842, pp. vi-vii)

Unlike Say, therefore, McCulloch’s concern was not with limiting the ties between the ‘science of political economy’ and the practices of legislators and politicians, but rather to found this science upon the correct principles – foremost among them, that wealth consisted not in money, but rather in human labor. McCulloch thus shifted the emphasis, but retained the allusion to Steuart nonetheless. An expanded version of his introductory chapter came also to be included in his 1828 edition of the Wealth of Nations, containing a new paragraph, at the

11 Say used the distinction to make the point that wealth is “independent of the nature of government” (1803, p. ii), which is precisely the argument advanced by McCulloch, to whom the circumstances favoring material prosperity “are not the exclusive attributes of any particular species of government” (1825, p. 57).
12 McCulloch singled out Senior as a target for his charges of excessive abstraction, which reflected his movement away from the Ricardian style of political economy (1842, p. xii).
end of the historical survey of political economy, in which McCulloch discussed Steuart’s *Principles* more carefully:

This work, though intended to serve as an exposition, or systematic view of the principles of the mercantile system, is by no means destitute of enlarged and ingenious views. The first book treats of the mutual action and re-action of population and agriculture, and contains several passages in which the true theory of population is set in the clearest and most striking light. There are, besides, many judicious observations interspersed throughout the rest of the work, more especially in those parts which treat of money and exchange. It must, however, be acknowledged, that even when they are sound, the statements and reasonings are singularly perplexed, tedious, and inconclusive. Sir James had no clear idea of the real source of wealth, or of the means by which it may be rendered most productive; and even as an exposition of the mercantile system, his work is certainly inferior to the *Lezioni* of Genovesi, published three years previously. Though Dr. Smith was well acquainted with Sir James Steuart, he has not once referred to his treatise; and if we except those parts of his first book in which he treats of the progress of population, it is difficult to discover what he could have learned from him, that he might not have equally learned from others. (McCulloch 1828, p. xlix-l)

McCulloch thus recognized the merits of Steuart’s monetary thought, echoing a judgment voiced by Ricardo in his *Proposals for an Economical and Secure Currency* (1816), where he stated that the “writings of Sir James Steuart on the subject of coin and money are full of instruction” (p. 14). This was not enough, however, to absolve Steuart as a political economist: besides his stylistic deficiencies, Steuart demonstrated “no clear idea of the real source of wealth”. Himself an enthusiast of monetary history and theory, McCulloch began his compendious entry on ‘Money’ for the *Encyclopedia Britannica* rehashing Smith’s account of the origins of money as a natural outgrowth of the division of labor and generalization of exchange, as presented in Book I, Chapter IV – and only then, after having thus established the essentially subsidiary role of money, he proceeded to discuss the many aspects of his topic at length (1853-60, p. 416). Even though Steuart could hardly be accused of committing the Midas fallacy, one might still say he cared too much about money to deserve being included in the pantheon of political economy.

In its various forms – the *Discourse*, the entry on ‘Political Economy’ to the *Encyclopedia Britannica*, and the introduction to the *Wealth of Nations* – McCulloch’s
account of the rise and fall of the mercantile system, and of Steuart’s place within it, had

certainly reached a wide audience by the middle of the 19\textsuperscript{th} century. Adolphe Blanqui, the
pioneer French historian of economics, after quoting Thomas Mun’s argument in defense of a
favorable balance of trade, went on to list Davenant, Child, Steuart, Melon, Forbonnais,
Genovesi, and Ustariz as authors who shared similar views (1837, p. 17). The list, remarkably
similar to the one provided by McCulloch, illustrates how a canon was being created to flesh
out Smith’s account of the mercantile system – and how Steuart, regardless of what he had
himself to say on the matter, had already become a part of it.

3. Steuart and Smith on international trade

Considering the above discussion, it may come as a surprise to find the following
statement in John Rae’s biography of Adam Smith:

In his lectures on jurisprudence and politics [Smith] had taught the doctrine of free trade from the
first, and not the least remarkable result of his thirteen years’ work in Glasgow was that before he left
had practically converted that city to his views. […] Sir James Steuart of Coltness, the well-known
economist, used, after his return from his long political exile in 1763, to take a great practical interest
in trying to enlighten his Glasgow neighbours on the economical problems that were rising about
them, and having embraced the dying cause in economics as well as in politics, he sought hard to
enlist them in favour of protection, but he frankly confesses that he grew sick of repeating arguments
for protection to these "Glasgow theorists," as he calls them, because he found that Smith had already
succeeded in persuading them completely in favour of a free importation of corn. (Rae 1895, pp. 60-1)

To contrast Smith and Steuart along the lines of the divide between free trade and
protectionism represented a clear departure from the conventions of early-19\textsuperscript{th} century
scholarship, and reflected changes in the surrounding ideological context: the ascension of a
Cobdenite ‘free trade tradition’ identified with Smith’s legacy, on one hand, and the challenge
raised to the Smithian interpretation of the mercantile system by the likes of Schmoller and
Cunningham, on the other (Magnusson 2004, pp. 46-90). This interpretation, however,
obscured the manner in which Smith’s contribution to the theory of international trade had been appreciated by his own followers throughout the 19th century.

As already mentioned above, Smith’s writings on international trade have been the subject of a long and ongoing scholarly debate. Among its latest chapters, Reinhard Schumacher (2015) has attempted to exonerate Smith from the common imputation of adhering to a ‘vent-for-surplus’ theory of the gains from trade, while Keith Tribe (2015, pp. 117-33) has insisted that the notion of productive differentials among distinct employments of capital, as presented at the end of Book II, provides the key to understanding Smith’s take on the topic13. Regardless, however, of the ‘true’ merits of Smith’s own ideas, the fact remains that his approach was not so kindly appreciated by his own disciples. Important landmarks in this respect were the publication of John Stuart Mill’s essay ‘Of the Laws of Interchange Between Nations’ (1844), and of his Principles of Political Economy (1848). In the former, Mill placed Ricardo as the crucial figure in the history of international trade theory, arguing that, before him, “the benefits of foreign trade were deemed, even by the most philosophical enquirers, to consist in affording a vent for surplus produce, or in enabling a portion of the national capital to replace itself with a profit” (1844, p. 1). The point was later expanded in the Principles, with explicit reference to Smith:

The notion that money alone is wealth, has been long defunct, but it has left many of its progeny behind it; and even its destroyer, Adam Smith, retained some opinions which it is impossible to trace to any other origin. Adam Smith’s theory of the benefit of foreign trade, was that it afforded an outlet for the surplus produce of a country, and enabled a portion of the capital of the country to replace itself with a profit. These expressions suggest ideas inconsistent with a clear conception of the phenomena. (Mill 1965 [1848], p. 592)

13 Both Schumacher’s and Tribe’s hypotheses had been at least partially anticipated by Elmslie and Sedgley (2002), who argue that distinction between productive and unproductive labor hold the key to a proper understanding of Smith’s vent-for-surplus arguments.
Mill thus implied that, in a subject as important as international trade, Smith had not been able to shake off all the prejudices typically associated with the mercantile system. His assessment was shared by others. McCulloch himself had chastised Smith for advocating that agriculture was a more productive employment for capital than trade, and that home was preferable to foreign trade (1825, pp. 54-5). The argument for Smith’s disappointing performance in this topic was presented in canonical form by Jacob Viner, to whom Smith’s theoretical case in favor of free trade did not advance beyond what had already been successfully established by several of his predecessors, who espoused what Viner termed the “eighteenth-century rule” (1937, p. 440). The lack of any clear distinction between the theories of international trade espoused by Smith and earlier authors has also been stressed by other influential 20th-century commentators such as James Angell (1926, p. 35-6) and Joseph Schumpeter (1981 [1954], pp. 353-4).

Steuart’s achievements on this subject, on the other hand, have been recognized by later commentators. Lars Magnusson, for instance, has argued that Steuart’s views on international trade were “far from what is usually characterised as ‘mercantilist’”, since he emphasized the reciprocal nature of the activity, advocated that “an inflow of specie was not a true sign that a country gained from its trade with other countries”, and was generally “for economic freedom and against monopoly” (1994, pp. 5-6). Andrew Skinner (1962), moreover, has called attention to the shared intellectual background between Smith and Steuart, both indebted to what he terms the Scottish Historical School. To him, Steuart’s ideas about economic policy should be seen against the background of the concept of development he had absorbed from this source, complete with a recognition of the limits imposed on state intervention by the emergence of a liberal economic order. Let us then delve a little deeper

14 The role of Mill’s account in the creation of a canon in the history of international trade theory has been analyzed by John Aldrich (2004) and, more recently, Keith Tribe (2015, pp. 111-3).
into what distinguishes and approximates the treatment dispensed by the two Scottish political economists to this topic.

It is important to recall that Steuart’s first incursions into international trade appeared in Book II (‘Of Trade and Industry’) of his *Principles*, thus anticipating the proper, and lengthy, discussion of monetary issues in Book III (‘Of Money and Coin’), which will be explored in more detail in the next section. Additionally, Steuart’s considerations on international trade, as later in the case of money, were subordinated to two all-encompassing concepts, which pertained to the set of general elements that left an imprint on the whole work: the ‘balance of work and demand’, and the ‘balance of wealth’.

A brief note on these two ‘balances’. The ‘balance of work and demand’ identified the basic mechanism of exchanges entertained by social agents: agricultural workers, landlords and ‘free hands’. Steuart’s approach to surplus societies envisaged, before anything else, the exchange between, on one hand, those who have money, and thus demand personal services, and on the other, those who have no money, and have to provide personal services or goods in order to secure access to subsistence, or even some superfluity. The first step in this broad social interchange consisted in the provision of agricultural surpluses to ‘free hands’ and rich people in general. The circulation of agricultural surpluses was a key element in Steuart’s, as it was in Hume’s and Smith’s, understanding of non-primitive societies (Skinner 2003). Smith went beyond Steuart and Hume, not only emphasizing that agricultural surpluses preceded the development of towns, but also assigning special importance to capital invested in agriculture, which could obtain higher profits and greater security than capital applied in other activities.\(^{15}\)

For Steuart, it was the existence of such surpluses that allowed ‘augmentations’ of population, recognized as a sign of progress. On the other hand, and since agricultural

\(^{15}\) On the special character of agricultural capital in Smith's system of political economy, see Tribe (2015, pp. 118-26).
surpluses were a key element in Steuart’s approach to circulation – and, as in Cantillon’s model, circulation involved both commodities and money – it is important to keep in mind that price movements associated to demand and supply of commodities were inherent in circulation. Too much demand for agricultural goods would raise the price of subsistence, putting the whole social mechanism under threat. Too much demand for manufactures and superfluities would similarly propel their prices, possibly draining workers from agriculture towards manufacture, and ultimately threatening food supply. The possibility that demand would outstrip food supply provided the backdrop for Steuart’s perception of the social balance, be it because he perceived ‘wants’ as unlimited, or else because, differently from Smith, he did not emphasize the consequences of the division of labor (Skinner 1966).

In order not to disrupt the basic social mechanism, Steuart considered that in certain situations it was necessary to complement the supply of food with imports, which meant the statesman should always be attentive to the adequate provision of the necessaries of life. In any case, the price mechanism operationalized this social equilibrium, producing either soft ‘vibrations’ of prices and subsequent adjustments of demand and supply, or alternatively, uncontrolled price hikes that undermined the ‘balance of work and demand’. We will later have the occasion to make some additional considerations on the price mechanism, as envisaged by Steuart.

The ‘balance of wealth’ described the distribution of wealth in general among the population. At stake here was the basic social distinction between rich and poor, and the transfer of goods and assets in general among people and classes - for instance, between rich landowners and industrious tenants, or between landowners and merchants. It is important to remark that the transfer of assets implied a mercantile exchange, thus having no effect, prima facie, on the balance of wealth. Steuart considered, however, that once goods were exchanged, their consumption represented a destruction of wealth. An exchange of money for
food, for instance, would lead to the consumption of food, and thus to a unilateral destruction of wealth: money subsisted and enabled accumulation, whereas food disappeared. Some goods were durable, while others were evanescent. The contrast between durables and consumables might lead to a disturbance in the ‘balance of wealth’, a reasoning that applied to foreign trade as well as to money and credit issues in general. Imports of food, for instance, implied an exchange of durables for non-durables. Food would be consumed, and the specie transferred to foreign countries thus represented, according to Steuart, a transfer of wealth. Following the same logic, the accumulation of debts might destroy landlords, impelling them to lose their lands, in an obvious disturbance of the ‘balance of wealth’.

Consumption thus destroyed the ‘intrinsic worth’ of a commodity, affecting the balance of wealth. Here it is worth noting that, following an old tradition observable, for instance, in Locke’s approach to money, Steuart considered precious metals to be the quintessential inconsumable. Moreover, following Petty, he considered that precious metals added to their durability also their acceptance as universal goods. Given that, at least in a first approximation, international trade involved the transfer of specie, Steuart believed the transfer of gold and silver from one nation to another was, in fact, a redistribution of wealth16.

International trade interfered not only with the ‘balance of wealth’ between countries, but also with the ‘balance of work and demand’. The exportation of manufactures, for instance, might elevate their prices and the general profitability of the branch, thus producing a drain of agricultural workers into manufactures and, additionally, a preference for ‘luxury’. The provision of food through imports and the elevation of productivity in agriculture were mechanisms capable of resetting an otherwise disturbed ‘balance of work and demand’, while administrative controls or special taxes could keep the acquisition of

16 “As soon as the precious metals became an object of commerce, and when, by being rendred an universal equivalent for every thing, it became also the measure of power between nations […] we have seen how a foreign trade, well conducted, has the necessary effect of drawing wealth from all other nations” (Steuart 1767, v.1, p. 326).
luxury goods in check. One might recall that Smith himself, not unlike Steuart, saw prodigality and the idle consumption of superfluities as a possible harmful consequence of international trade. In Book II, Chapter II, he warns that, when precious metals are sent abroad to purchase “foreign goods for home consumption,” they will likely bring back “such goods as are likely to be consumed by idle people who produce nothing,” in which case it “promotes prodigality, increases expense and consumption without increasing production, or establishing any permanent fund for supporting that expense, and is in every respect hurtful to society” (WN II.ii.31-34). The two authors, however, parted company in the solutions they envisaged for this problem. Whereas Steuart considered the preservation of the ‘balance of work and demand’ to be a duty of the statesman, Smith relied on the effect exerted by the “principles of common prudence” over the conduct of individuals (WN II.ii.36).

Steuart’s approach to foreign trade thus built on two strong traditions. The first of them considered that international trade implied transfers of precious metals. Modern trade, of course, involved a network of commercial agents who exchanged commercial bills, by means of dedicated clearing mechanisms; at the end of the process, however, precious metals were required to level off balances – a conclusion that was not simply a mercantilist dogma, but rather a concrete reality under metallic systems open to foreign exchange. The second tradition envisaged precious metals as universal money and equally universal elements of accumulation and power, being in this sense not reducible to simple commodities. Steuart’s adherence to both the above principles set him apart from the quantity theory tradition and from Smith, who insisted that, in international trade, transfers of precious metals should be considered just as any other ordinary commodity flows.

Nevertheless, Steuart’s account of international trade went beyond the simple opposition of precious metals against commodities. For him, foreign trade involved unequal agents, or states in different stages of economic development (Skinner 1966), as well as
markets not necessarily adjusted by price competition. Regarding the former, two types of international relationship were clearly distinguished in the *Principles*. The first opposed ‘industrious’ nations to primitive, or agricultural people, while the second considered European neighbors under similar conditions, or other reasonably leveled manufacturing countries. In relationships of the first type, an ‘industrious’ manufacturing state might take advantage of the backwardness of primitive commercial partners, increasing its wealth by means of a sort of unequal exchange. This was not a definitive or immutable situation, since the primitive nations might react, or else new competitors might come to outsell the original manufacturing country. In both cases, the advantages gathered by means of international trade were bound to disappear, and the country in question might even retrograde to ‘internal trade’\(^\text{17}\). In the meanwhile, however, the manufacturing nation would have profited. ‘Internal trade’ does not represent backwardness or lack of industrial initiative. To the contrary, industry and frugality could be spurred in this stage, but the country would have lost the opportunities open by foreign trade, as well as access to extraordinary sources of profit and wealth. Steuart attributed a special role for international trade in spurring profits and economic activity – a position that clearly contrasted with Smith’s understanding of international trade as an extension of domestic trade, even subject to lower levels of profitability and security (Tribe 2015, pp. 118-9).

However, even trade between similarly ‘industrious’ neighbors was not necessarily a contest between leveled partners. Apart from different natural endowments, trading countries might differ in industry and frugality, thus providing an additional reason for keeping foreign trade under the statesman’s surveillance. Steuart thus saw international trade, and especially the export of manufactures, as a means to acquire wealth at the expense of one’s partners, “to enrich their own nation, at the expense of all those who trade with her” (1767, v. 1, p. 289).

\(^{17}\) “[…] inland commerce […] is supposed to take place upon the total extinction of foreign trade” (Steuart 1767, v. 1, p. 305). In Steuart’s framework, nations go through a three-stage evolution: infant trade, external trade, and internal trade.
To reach a better understanding of the reasons that sustained his stance on this matter, we need now to bring money fully into our account.

4. Steuart and monetary theory

Steuart’s basic conceptions of money and credit, presented at the beginning of Books III and IV, respectively, have a bearing on his lengthy treatment of money, credit, public debt, and taxes. Additionally, these developments provide new angles into the assessment of his approach to the balance of trade, and consequently, new references to the treatment of international trade.

Money, according to Steuart, was basically a unit of account. However, metallic monetary systems in general evolved towards the establishment of a relation between the unit of account, on one hand, and the gold and silver coins proper, on the other. One of the consequences of this ‘realization’ of money into currency was that people began to take specific coins, or pieces of stamped metal, as their unit of account. The main reasons why coins were inadequate to function as a unit of account were that: 1) coins were commodities, and so their value oscillated; 2) they were subject to wear and tear; 3) they were clipped or subject to debasement; and 4) the relative value of the two most frequently used metals – gold and silver – oscillated. As is well-known, debasement was one of the main issues at stake throughout 17th- and 18th-century monetary debates. In Book III, Steuart developed an extensive revision on the issue of debasement – curiously enough, after having acknowledged that expansions in public debt, such as had taken place in England, had in practice thwarted this old, well-known monetary trick. Presenting debasement as a central issue in Book III reinforces the perception that Steuart intended his Principles to be a summary of the monetary debates that had occupied the previous two centuries of economic literature.
Interestingly, Steuart’s discussion of exchange rates immediately followed his revision of debasement. The question he then addressed was: how to establish a uniform exchange rate, when coins exhibiting the same face value differ in their metallic content? According to Steuart, irrespective of the heterogeneity of the coins, the international market established a value (the foreign exchange) for the pound sterling, taking into account the average metallic content of the coins in circulation. Effectively, this was “one of the best measures for valuing a pound sterling” (1767, v. 1, p. 570). The exchange rate thus put in evidence the ‘actual value’ of a national monetary unit. Responding to what was at the time a national cry, Steuart said that those who considered the exchange rate to be unfavorable to the pound sterling possibly took into consideration the official equivalence between coins and unit of account, and not the effective state of the circulating medium – a criterion that would later be shared by Smith as well (WN IV.III).

Additionally, the adjustment of the exchange rate to the real situation of the balance of trade was not automatic, since one of the main consequences of the ‘realization’ of money into currency was that commodity prices, especially of those exchanged only in the domestic market, remained attached to the denomination of the coin. In other words, domestic prices accommodated themselves to the stamp of the coin – a proposition that summarized Steuart’s disagreement with Locke and many other economists, who sustained that the physical state of the currency immediately influenced prices, and thus, for instance, a debasement would instantaneously result in inflation. On the other hand, this proposition consolidated Steuart’s stance on the different price mechanisms affecting commodities that were negotiated in international or domestic markets.

The issue of debasement, delving as it did into the differences in value between bullion and currency, led Steuart to the topic that dominated Book III: the rate of coinage. During the 18th century, England did not directly charge for coinage, whereas in most other
countries, especially in France, coinage rates and seignorage duties were usual. His advocacy for the imposition of coinage rates in England led Steuart to an ample review of the usual arguments on exchange rates, since he wanted to contest those who argued that imposing a rate on coinage would affect the exchange rate, thus imperiling English exports.

To most contemporary economists, the exchange rate would ultimately adjust to the ‘par of money’, or to the metallic content of the different national coins being exchanged. In international trade, in other words, it was bullion versus bullion, admitting only of the addition of transport costs. Contrariwise, Steuart saw the rate of coinage effectively imposing a price differential between bullion and currency, which had to be transmitted to the exchange rate. Additionally, the exchange rate reflected the scarcity or abundance of bullion, provoked by the effective state of the balance of trade. Scarcity of bullion relative to demand elevated its price and, in this sense, in countries where there was a charge on coinage, the price of bullion became the inferior limit to the price of coin. When the balance of trade became positive, the price of coins rose relative to bullion. Bills of exchange did not evade this general rule, since they were associated to given denominations of money, and not to weights in precious metal.

Steuart thus added complexity and layers of reality to the old maxim that a negative balance of trade implied an outflow of metals. He took rates of coinage and the state of the balance of trade into consideration in his reassessment of the relation between bullion and currency, as well as in his appraisal of the determination of the rate of exchange. Furthermore, the distinction between ‘balance of trade’ (commodities), ‘balance of payments’ (including financial transactions and any payments abroad), and ‘grand balance’ (the synthesis of the two other balances) set Steuart apart from any reminiscence of what Smith, in referring to the mercantile system and their policies for the regulation of commerce, would denominate as the ‘balance of trade doctrine’.
Furthermore, the distinction between ‘balance of trade’ and ‘balance of payments’ allowed Steuart to include foreign credit in his ample assessment of the nature of a credit economy. In Book II Steuart had emphasized the possibility of ‘melting down’ solid property, by means of loans collateralized by land mortgages – an issue that surfaced in the *Principles* now and then. When discussing foreign debt, Steuart conferred to the melting down of solid property a national dimension, emphasizing that a persistently indebted country ultimately delivered the property of its domestic assets, including land, to foreigners. Since banks were the effective agents of this operation, and were also the ultimate custodians of national currency, they could be pressed by domestic depositors and by ‘exchangers’ when fulfilling their obligations of delivering currency upon demand. Persistent balance of trade deficits allowed ‘exchangers’ an opportunity for pressing the banks, draining currency and thus bringing about a liquidity crisis that could hit the nation severely.

Overall, Steuart’s analysis of international trade was complemented by the monetary dimension, including elements such as the effects of the rate of coinage, the operation of banks, the connections (via credit) between solid property and money. The rate of interest, of course, was a crucial element in Steuart’s system, representing a sort of link connecting domestic and foreign credit, circulation, and money proper (including paper money).

It is important to observe that the actions of the statesman, which in Books I and II were restrained most of all to the surveillance of the two ‘balances’, turned now upon issues that necessarily belonged to the sphere of public policy, such as coinage, interest rates, and international agreements. In monetary policy, as in foreign trade affairs, there was no way of evading the role of state action. Although Steuart, as Hume and Smith, was not overwhelmed by the possibility of money becoming scarce, and thus harming trade, he placed his monetary analysis within a much wider context. His system not only contemplated the existence of credit and paper money, but also called attention to the fact that a metallic monetary system
operated under a perpetual challenge, represented by the ‘realization’ of monetary units into coins. One of the basic aspects of this ‘realization’ was the divergence between the prices of bullion and currency. The price of bullion depended on its scarcity, which in turn depended on the results of the balance of trade. Finally, persistent balance of trade deficits put in the hands of foreigners and exchangers the opportunity of profiting from arbitrage in the markets for money and precious metals, which could lead to a contraction of credit. Steuart’s insistence on the role of bullion and currency, and on the need for adequate public policies concerning money and foreign trade, were thus not an outdated revival of the Midas fallacy: they added a note of realism and complexity to the analysis of metallic monetary systems open to international trade\(^\text{18}\).

\section*{5. Concluding remarks}

When drawn into debates about the determination of the exchange rate and its relation to the balance of trade, Smith would not diverge much from Steuart. He was skeptical about the meaning of the balance of trade (\textit{WN}, IV.V), and sustained that exchange rate ups and downs were not a precise measure of negative or positive results in the balance of trade. His most important argument was the existence of multilateral, and not only bilateral trade relations, but he included in the ‘real balance’ both the rate of coinage and the real state of coins in circulation. The ‘computed exchange’ considered official monetary standards, while the ‘real exchange’ depended on the actual metallic pieces. Smith’s most important argument, however, was that positive balances, so cherished by the defendants of the ‘mercantile system’, might be the consequence of monopolies and bounties – that is, the result of detrimental institutions and policy instruments.

\(^{18}\) Many commentators (Sen 1957; Vickers 1959; Hutchison 1988) emphasized the importance of credit in Steuart’s system, and the possibility of ‘Keynesian’ crises induced by monetary constraints. They did not sufficiently emphasize, however, the connections between the ‘balance of payments’ aspect of Steuart’s system and credit tightening.
In rejecting the possibility of money becoming scarce, Smith and Steuart to some extent converged. Both authors emphasized that bank notes and commercial papers might perform the role of means of exchange, resuming Petty’s and Cantillon’s acknowledgements of the role of non-metallic instruments in a credit economy. Although the price-specie flow mechanism was not proposed as a logical theorem in the *Wealth of Nations* as it had been in Hume’s *Essays*, the admission that exchange rates reacted to the effective results of the balance of trade, producing cheap (expensive) imports (exports), mitigated any concern with aspects of the real price system that might check automatic adjustments (*WN IV.1*). Here, in the way they conceived the operation of the price system, there was a visible difference between Smith and Steuart.

In fact, it is arguable that Steuart’s rudimentary approach to value and prices, while remaining far behind Smith’s sophisticated considerations on ‘natural value’, market prices, and the mechanisms regulating their convergence, still provided adequate instruments to deal with some of the characteristic traits of real markets. In Steuart’s price model, profits were simply added to basic costs of production, imprecisely stated19. Competition produced ‘reasonable profits’, but in many situations, profits – in fact, a sort of markup element – might retain their unusually high levels. Under these conditions, prices would become ‘consolidated’, and resist reduction to competitive standards. On the other hand, prices move up steadily, but hardly admit of reductions, and thus price adjustments that imply reductions in ‘consolidated profits’ become unfeasible.

The stickiness of prices was enhanced by the fact that some commodities, especially those traded exclusively in domestic markets, followed the stamp of currency, and not its real value. As seen above, this was one of the consequences of the ‘realization’ of money into coins. In this sense, prices tended to be irreducible. On the other hand, being much less

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19 Alternatively, prices in Steuart’s system could be interpreted as equivalent to wages plus profits (Skinner 1966)
sensitive than Smith to increases in productivity produced by a deepening division of labor, Steuart tended to concentrate on profits, instead of the basic costs of production. Whenever prices ended up being excessively high, given the reality of the market and the aggressiveness of foreign competitors, profits would become unsustainable, and producers – sometimes even the whole economy – would simply disappear or retract into ‘internal trade’. In short, Steuart’s very rudimentary price model, which kept both the subtleties of the price-specie flow mechanism and the Newtonian harmony of Smith’s price theory at bay, allowed him to describe the realities of an aggressive and not entirely competitive international trade, and the complexities of a monetary system in which, despite the existence of sophisticated credit instruments, precious metals remained a basic element.

Steuart’s transformation into one of the last mercantilists, we may thus conclude, had less to do with the differences between his and Smith’s visions of political economy, many as they were, and more with the analytical preferences shared by an influential subset of Smith’s disciples. As political economy became a theory of value and distribution, it was no longer possible to claim a central role for money within its analytical core. Those who did so, like Steuart, were characterized as outdated thinkers who cling to an irrational monetary fetishism, to use Heckscher’s expression. Ironically, then, the careful and sophisticated monetary analysis advanced by Steuart, building upon almost two centuries of informed discussion on the topic, came to be regarded as just another expression of the old Midas fallacy. A chapter had been closed in the history of the discipline, and it was only when money regained its conceptual prominence within mainstream economics, with Keynes and his disciples, that Steuart began to be read again as someone who might still have something valuable to offer. The construction of a canon, during the early 19th century, which opposed Smith and Steuart along the demarcation lines provided by the ‘system of commerce’ may thus have contributed crucially to the eclipse of monetary analysis as a theoretical approach to
political economy, first identified by Schumpeter (1981 [1954], pp. 264-74), and recently recast by others (Cartelier, forthcoming; Bouillot & Diatkine, forthcoming). Regardless of the scholarly merit of their interpretations, when commentators such as Samar Sen (1957) and Douglas Vickers (1959) turned to Steuart for inspiration on how to conceive the role of money in a complex modern economy, they readily found what they were looking for.

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