



OXFORD JOURNALS
OXFORD UNIVERSITY PRESS

Sir James Steuart on the Public Debt

Author(s): Walter F. Stettner

Source: *The Quarterly Journal of Economics*, May, 1945, Vol. 59, No. 3 (May, 1945), pp. 451-476

Published by: Oxford University Press

Stable URL: <https://www.jstor.org/stable/1884574>

JSTOR is a not-for-profit service that helps scholars, researchers, and students discover, use, and build upon a wide range of content in a trusted digital archive. We use information technology and tools to increase productivity and facilitate new forms of scholarship. For more information about JSTOR, please contact support@jstor.org.

Your use of the JSTOR archive indicates your acceptance of the Terms & Conditions of Use, available at <https://about.jstor.org/terms>



Oxford University Press is collaborating with JSTOR to digitize, preserve and extend access to *The Quarterly Journal of Economics*

JSTOR

SIR JAMES STEUART ON THE PUBLIC DEBT

SUMMARY

I. The British public debt in the eighteenth century and contemporary opinion, 451. — Steuart in the literature, 452. — II Steuart's views on the public debt: public vs private debt, 454, public debt and circulation, 455; public credit as the balance wheel, 456, comparison with taxes, 457, social effects, 458; repayment, 459; debt limits, 462. — III. British and French credit in the eighteenth century: deterioration of French credit, 466, influence of form of government, 467; public confidence, 467, narrowness of the market, 468, burdensome taxation, 468, the sinking fund, 469, interest rates, 471; qualifications, 471. — IV. The "evolutionist approach," 472 — V. Conclusion: Steuart's position, 475.

I. THE BRITISH PUBLIC DEBT IN THE EIGHTEENTH CENTURY

The stupendous rise of the public debt during the present war has aroused concern among both economists and laymen over the ability of the nation to cope with its postwar economic problems in the face of what seems to be an unprecedented burden. This problem, however, is by no means unparalleled in history. During the eighteenth century Great Britain was involved in five wars, spaced over almost half of the century. During that period the public debt grew by leaps and bounds. It was 16.4 million pounds in 1701, 78.3 million in 1748, and 252.5 million in 1793, almost sixteen times its original size.¹ From the beginning of the war of the Spanish succession (1701) to the end of the Napoleonic Wars (1815) the annual rate of increase was 3.6 per cent. The rises were even more spectacular during actual war years, e.g. ten per cent from 1701 to 1713, and 8.5 per cent from 1755 to 1763.

The impact of this continuous growth of the public debt on the economy of that period was in several respects more striking than that of the much larger increases of our time. In many ways, indeed, it supplies the key to the economic history of Britain and her rapid rise to commercial and industrial supremacy over the Continental nations. It contributed to economic development and exercised a stabilizing influence on British capitalism. It gave the growing class of merchants and traders the necessary security

1. Finance Accounts of the United Kingdom of Great Britain and Ireland.

and liquidity to enable them to invest the balance of their funds in riskier enterprises. The stock market transactions of the time were almost exclusively in government securities. Public issues also provided basic reserves for the operations of the Bank of England.

The public debt had also an important social function. It built up a new financial class to contend in influence and wealth with the landed aristocracy. It widened and deepened the interest of large classes of bondholders in the fate of the state and the stability of its credit. Thus public credit exercised an influence which was socially beneficial, binding various groups together and making them more aware of their community of interest.

This powerful contribution to social and economic development was not recognized by most of the contemporary writers. Only Sir James Steuart² saw the social and economic implications of the growing public debt. His principal work appeared fifteen years after Hume's essay on Public Credit and nine years before Smith's *Wealth of Nations*. Neither of these authors grasped the significance of the essential and positive rôle which public credit was playing in the evolution of the British economy. Still imbued with the concept of private debts, they feared and resisted debt increases, and suggested policies that were both unrealistic and irresponsible. The basic fallacy of their approach was an unwillingness to leave room in their system for the constructive function of government actions as one of the vehicles of progress. As a result, their views were consistently out of touch with realities, and refuted again and again by the actual course of events.

Little attention has been given to Steuart in the British literature. Only very recently has the originality and significance of his

2. Sir James Steuart was born in Scotland in 1712. He studied law at the University of Edinburgh, after which he spent five years abroad familiarizing himself with the manners, customs and laws of different countries. On his return he retired to his estate at Coltness, after an unsuccessful attempt at politics. In 1745 he was exiled from Scotland because of his activities in connection with the Jacobite attempt on the Crown, and was not allowed to return until 1762. He spent these seventeen years in five different countries, making a careful study of the political economies of the Continent. During this time he finished the major portion of his chief economic work, *Principles of Political Oeconomy*, which was finally published in 1767. In later years he turned his writing efforts to more immediate problems — money, land reform, etc. — on the one hand, and to philosophy, on the other. He died in 1780.

Public Credit is discussed in Part IV of Book IV of the *Principles*; particular aspects are also mentioned in many other parts of the study.

approach to economic problems been at all recognized. Together with Richard Jones, Steuart is mentioned by Grossman³ as one of those few writers who distinguished themselves from the classical British economists by stressing the element of growth and evolution of economic institutions.

The scant attention given Steuart may be due in part to the view that he was completely overshadowed and rendered obsolete by the work of Adam Smith. Smith himself contributed to this attitude; although familiar with Steuart's book, he never mentions Steuart in the *Wealth of Nations*. In a letter to Pulteney⁴ he writes:

I have the same opinion of Sir James Steuart's book that you have. Without once mentioning it, I flatter myself that any false principle in it will meet with a clear and distinct confutation in mine.

This tendency to minimize Steuart's contribution can be found almost without exception up to the present time. He has been charged with outdated mercantilist views,⁵ failure to grasp the nature of money, capital and interest,⁶ and with being obscure and contradictory and having added comparatively little to the body of economic doctrine.⁷

Steuart's work has found greater recognition and better understanding in the German literature. To scholars who were interested primarily in the study of history and institutions, and who accepted the ideas of Adam Smith only with considerable limitations, Steuart's approach was particularly appealing. Hasbach,⁸ appraising Steuart's place in the history of economic doctrine, considers him one of the greatest economists of all time, and believes that Smith was greatly indebted to him. But even he shows only a limited understanding and appreciation of Steuart's contribution to the public debt problem.

We shall not attempt here to refute or qualify these opinions concerning Steuart's contribution. The purpose of the present

3. H. Grossman, "The Evolutionist Revolt Against Classical Economics, II," *Journal of Political Economy*, December, 1943.

4. Quoted in J. K. Ingram, *A History of Political Economy*, p. 87

5. Ingram labels him a mercantilist writing at a time when the appeal of mercantilist doctrines was already past, and calls his work "one of the most unfortunate of books." *Op. cit.*, p. 86. Cf. also E. A. J. Johnson, *Predecessors of Adam Smith*, Chap. XI.

6. Fraser, *Encyclopaedia of the Social Sciences*.

7. Erich Roll, *A History of Economic Thought*, p. 127.

8. Hasbach, *Untersuchungen uber Adam Smith*.

article is to show that only in Stuart's discussion did the development and rôle of British credit during the eighteenth century receive adequate recognition and understanding. Beyond that, we find a remarkable similarity between his ideas and modern views on the public debt. Although often stated clumsily and without the necessary qualifications, the rudiments of modern public debt theory can be found in several of his discussions. Still more important, Stuart's approach has in it the elements of an attitude toward the public debt problem which is in fundamental contrast to that of the classical writers, and which leads to a sound appraisal of the public debt problem regardless of time and place.

II. STEUART'S VIEWS ON THE PUBLIC DEBT

Public vs. Private Debt. Stuart's approach to the problem of public borrowing is indicated by his preference for the term public "credit" rather than public "debt." This follows from his view that credit is an asset to the community — one of the tools of progress. He sees two important differences between public and private credit. One is in the person of the debtor. Under a private debt contract the person who incurs the debt is himself responsible to the creditors for its repayment. On the other hand, those who contract an obligation in the name of the state are not themselves responsible for it. "Hence it happens, that private people are commonly more anxious about paying their debts than statesmen are who administer for the public."⁹ Another important difference is their effects on the prosperity of the debtor:

The interest of a private debtor is simple and uncompounded, that of a state is so complex, that the debts they owe, *when due to citizens*, are, on the whole, rather advantageous than burdensome: they produce a new branch of circulation among individuals, but take nothing from the general patrimony.¹

Public debts play a constructive rôle in the economy. Internal public debts do not burden the economy, waste resources, or make the economy poorer. On the contrary, they are advantageous, and serve to increase productivity. "... the country is neither poorer or richer, when considered in a cumulative view, than if the same sum had been lent to private people at home."² Rather, "... the effect of public borrowing, or national debt, is

9. Stuart, *op. cit.*, Vol. II, p. 625.

1. *Loc. cit.*

2. *Ibid.*, p. 449.

to augment the permanent income of the country, out of stagnating money, and balances of trade.”³

Steuart was aware that this concept of public credit was quite new. Fifty years earlier, when Davenant wrote on the subject, these effects of public credit were not yet recognized. It was considered closely akin to private credit, and both Parliament and the people, on the whole, looked upon it with suspicion. The creditors were viewed as enemies of the public, and lending to the Government was feared as an opportunity for personal aggrandizement.⁴ The relation between the use of public credit and economic progress had not yet been realized.

Public Debt and Circulation. The public credit, according to Steuart, is an important instrument in promoting the development of industry and trade in a country, but it can perform this function only if the economy is well supplied with a circulating medium. Economic development needs as its vehicle an adequate and sufficient amount of circulation to implement the demand for consumption goods and make it possible to dispose of the products of industry.

Metallic circulation, however, cannot keep pace with the increased requirements of the economy; it must be supplemented by fiduciary circulation. This leads to the establishment of credit. The increased liquidity introduced by government securities makes it possible to “melt down private property.” Individuals can now borrow upon their property, traders on their stock in trade, and holders of government bonds on government paper.⁵ In this respect public credit has the same function as private credit. It makes the economy more liquid and provides funds for industry and

3. *Ibid* , p 451.

4. *Ibid* , p. 357: “Men, at that time, had a terror upon them in contracting debts for the public: they considered the nation as they would a private man, whose interest is one, uncompounded, and relative to himself alone: in this light, creditors appeared as formidable as enemies; they were looked upon by ministers as such; and this general opinion on one side, contributed, no doubt, to make the monied people less interested in the distress of government, and more ready to lay hold of every opportunity of improving such occasions, for their own advantage.”

5 *Ibid.*, Vol. I, p. 366: “Those nations, therefore, who only circulate their metals, confine industry to the proportion of the mass of them. Those who would circulate their lands, their houses, their manufactures, nay their personal service, even their hours, might produce an encouragement for industry far beyond what could be done by metals only. And this may be done, when the progress of industry demands a circulation beyond their power.”

trade. Public securities offer a ready investment for people who have available funds which they would not otherwise use.

The beneficial influence of such an investment opportunity was admitted even by Hume, who pointed out that the merchants who can invest part of their funds in government issues are thereby in a position to trade upon lower profit, reducing the price of the commodities and encouraging greater consumption. But he felt that the unfavorable effects of public debts on the economy were much greater, and adds, "You will find no comparison between the ill and the good which result from them."⁶

Steuart makes it clear that investment in government securities does not take the place of other investment opportunities; but is a net addition to total investment. In a way it merely supplements private investment.⁷

Public Credit as the Balance Wheel. Steuart recognizes that public borrowing must be adjusted to the conditions of trade at the particular time. Public borrowing is inappropriate as long as "circulation is full," because then it would only raise the rate of interest and have undesirable consequences for commerce. On the other hand, when circulation is stagnating in one part of the economy and there is unemployment and a slackening of trade and industry, the state should absorb this excess and through its expenditures throw it into new channels of circulation.⁸ Thus the use of public credit is conceived as the balance wheel in the economy. It keeps resources fully employed, and prevents stagnation in any part of the economy from having an adverse effect elsewhere. In addition public credit is a necessary instrument of war finance.⁹

This balancing function of public credit, however, cannot be achieved without the active intervention and guidance of the statesman. As conditions seem to require, he should discourage luxury and prodigality, or encourage production and consumption.¹

6. Hume, "Of Public Credit," p. 7.

7. Steuart, op. cit., Vol. II, p. 450: "We have said that loans are filled by money stagnating, which the owner desires to realize: if he cannot do better, he lends it to the government; if he can do better, he will not lend it."

8. Ibid., p. 449: ". . . we consider it as in a state of stagnation; but being lent to government, it is thrown into a new channel of circulation."

9. Ibid., p. 371, note: "Nothing however is more certain than that in time of war, far greater sums are required than any people can pay, without contracting debts."

1. Ibid., Vol. I, p. 375: "He ought at all times to maintain a just proportion between the produce of industry, and the quantity of circulating equivalent, in the hands of his subjects, for the purchase of it; that, by a steady and

In general, his actions should be directed toward an expansion of production and consumption, rather than having a restrictive effect.²

In Steuart's view the harmony between the public and private interest assumed by the classical economists cannot be taken for granted. The self-interest of individuals can be relied upon for the management of their own affairs; it does not, however, necessarily ensure the welfare of the public. The function of the statesman is therefore to safeguard the public interest.

Comparison with Taxes. According to Steuart taxes perform a function similar to that of public credit, making people more industrious and enriching the nation. "When they are properly levied, they only abridge unnecessary private expence: when they are properly applied by the state, they advance improvement every where."³ The industrious classes do not bear the burden of increased taxation, which falls rather upon the idle rich in proportion to their luxury only. On the other hand, the increased revenue in the hands of the state makes possible expenditures which stimulate trade and industry and provide employment.⁴ Thus the real fund from which taxes are paid is that produced by the additional activity and industry which they bring about.⁵

For taxes to have this effect, however, the monetary circulation of the country must be increased to the same extent as the taxes;⁶ otherwise the economic flow and the industry of the country will be interrupted. In earlier times, taxation was of little use to the Government and a considerable burden on the people, simply because the volume of monetary circulation was inadequate for maintaining the level of economic activity, despite the additional impositions. Banking facilities were not available for turning "the value in the hands of the people" into money. With adequate monetary mechanisms, however, and when properly imposed, judicious administration, he may have it in his power at all times, either to check prodigality and hurtful luxury, or to extend industry and domestic consumption, according as the circumstances of his people shall require the one or the other corrective, to be applied to the natural bent and spirit of the times."

2. *Ibid.*, pp 490-491.

3. *Ibid.*, Vol. II, p. 640.

4. *Ibid.*, p 554

5. *Ibid.*, p 555: "This is the fund out of which the greatest part of taxes is paid; it is a fund created by the industrious Britons, which I hope will increase for many centuries, tho' taxes should increase in proportion."

6. *Ibid.*, p. 366.

taxes do not burden the economy. They "resemble the expence laid out upon new establishments for improvement; because in their consequences they augment the prosperity and ease of the whole people, not by being levied, but being properly applied."⁷

Thus it is clear that Steuart's concept of the impact of government finance on the economy differs basically from that of the classical writers. The latter pictured an economy burdened and oppressed by public debts and taxes, which dissipated resources, destroyed existing capital and prevented, or at least retarded, capital accumulation. In addition, they argued that the public debt gave rise to an idle class of stockholders living on their revenues and constituting a drag on the industrious groups in the economy. Steuart, on the other hand, looks upon debts and taxes as important instruments for promoting thrift and industry and leading the economy to ever rising levels of production, consumption, and income. His whole concept of the economic process is much more dynamic, and emphasizes change and growth as compared with the more static orthodox approach of his time.

Social Effects. For a correct appraisal of the rôle and impact of public debts it is not sufficient to discuss merely their effect on the economy; their influence on the social structure must also be taken into consideration. Actually, the use of public credit has usually been rejected on the ground that it upsets and changes the social structure in a direction considered undesirable by the writer.

A particularly clear instance of this is found in Hume's violent rejection of the public debt on the ground that it would disrupt the existing social structure, which he claimed conformed to the natural order of things. The public debt would create a class of stockholders who would draw "almost all the rent of the land and houses, besides the produce of all the customs and excises," and would "sink into the lethargy of a stupid and pampered luxury, without spirit, ambition, or enjoyment. Adieu to all ideas of nobility, gentry, and family."⁸ This stock capital conveys "no hereditary authority or credit to the possessors" and thus "the several ranks of men, which form a kind of independent magistracy in a state, instituted by the hand of nature, are entirely lost."⁹

7. *Ibid.*, p. 643.

8. Hume, *op. cit.*, p. 10.

9. *Loc. cit.*

The weakened economic position of the landed gentry would also weaken their political prestige and influence and would result in despotism.¹ Similarly, social stigma is put on the creditors as an idle class making no "productive" contribution to the economy.

There can be no doubt that the growth of the public debt in Great Britain during the eighteenth century had a profound social influence. It created a new form of wealth and security in addition to land — the ownership of government bonds. And it promoted thrift and savings by providing an investment which was more readily accessible than the purchase of land; through the expansion of public credit a growing part of the population became property holders. It developed their interest in the affairs of the state, and a spirit of community, and made for political stability. Government thus became no longer the privilege of a few, but rather the interest of many.

Steuart is fully aware of these effects of public credit and looks upon them favorably. He states that the increase of public debts creates an enormous fund of property in the economy,² and produces a "vibration in the balance of domestic wealth" creating a monied interest which grows in proportion as debts increase. He approves the influence of greater liquidity in making fortunes more equal.³ It is true that with the swelling of public debts the creditors' position in the economy becomes stronger, but a more important effect is to break down the barriers between various social groups and promote greater understanding and social flexibility.⁴

Repayment. Steuart does not feel that extensive debt repayment is always necessary or desirable. The proper policy with respect to debt repayment depends upon the existing circumstances. This is in marked contrast to the classical writers who postulated complete debt repayment as a first requirement of sound debt

1. *Ibid.*, p. 11: "And the middle power between King and people being totally removed, a grievous despotism must infallibly prevail."

2. *Op. cit.*, Vol. II, p. 446.

3. *Ibid.*, Vol. I, p. 367: "The use of symbolical money is no more than to enable those who have effects . . . to give an adequate circulating equivalent for the services they demand, . . . it is a method of melting down, as it were, the very causes of inequality, and of rendering fortunes equal."

4. *Ibid.*, Vol. II, p. 446: "The allurements of acquiring land-property is very great, no doubt, especially to monied men. The ease and affluence of those, on the other hand, who have their capitals in their pocket-books, is very attracting to the eyes of many landlords, especially at a time when they are paying the heavy taxes laid upon their possessions."

management. His position is not surprising, in view of his concern over the effect of fiscal measures on circulation and general economic conditions. While debt repayment in certain situations was desirable, he felt that at other times it would remove an important source of investment and have a depressing influence on the economy.

Steuart explicitly recognized that the economic conditions upon which this issue hinges had changed drastically as compared with earlier times. When capital was scarce and the demands of trade and industry great, because of economic expansion, prompt repayment was a primary rule of debt management. The monetary circulation was inadequate to satisfy both the demands of Government and of industry;⁵ hence the rate of interest tended to rise. Thus a good case could be made at that time for Davenant's recommendation that borrowing be preferably on short-term and his view that "the most adviseable plan of all, could it be accomplished, was to raise the money wanted within the year."⁶ The psychological attitude of the people was also strongly for such a policy.⁷ By Steuart's time, on the other hand, these conditions had changed considerably. In an economy adequately provided with capital, the public was now interested in a stable return on their investments, and the main attention of the Government in its policy of debt management was directed toward maintaining a stable rate of interest.⁸

The difference between Steuart's views and those of the classical writers on the question of debt repayment becomes particularly evident with regard to the question whether or not the public debt should be repaid immediately after the end of a war. Wars, as is well known, have been the most important reason for debt increase, particularly during the eighteenth century. The classical writers

5. *Ibid.*, p. 361: "The plain matter of fact was, that trade at that time was only beginning to take root in England, and demanded funds to carry it on. The use of banks had not then been discovered, for turning property into money. Circulation, consequently, was confined to the coin; and profits on trade were very great. All these circumstances rendered capitals of essential use; and the consequence was, to raise interest to an excessive height."

6. *Ibid.*, p. 357.

7. *Ibid.*, p. 359: "The minds of men at that time were totally taken up with the payment of capitals; and providing these could be discharged in a few years, it was no matter, they thought, what they cost in the mean time."

8. *Ibid.*, p. 361: "Capitals now are only of value in proportion to the interest they bring; and so long as the interest paid on public debts is sufficient to keep circulation full, and no more, interest will stand as it is."

urged immediate debt repayment, both to make up for the loss of capital and to prepare the nation financially in case another emergency should occur. Steuart does not share this view. He is concerned about the possible consequences of a sudden falling off of government expenditures resulting in a "regorging of money."⁹ If the financing of the war has been properly managed, immediately after the war the economy is likely to find itself with an excess of money for the reduced volume of transactions. To head off the adverse effects of such a situation, Steuart advocates an increase of taxes immediately after the war.¹

He does not, however, want to have the revenue used for debt repayment, but rather to promote expenditure, consumption and economic prosperity. This purpose would not be achieved by debt repayment "because it is observed, in general, that those who have property in the funds are not apt to squander money when unexpectedly thrown into their hands; on the contrary, they are commonly found to live very much within their income."²

Partial debt repayment, however, may be necessary in order to strengthen the public credit and to reconvert expensive short-term war loans into long-term securities bearing lower interest. This refunding operation can usually be carried out without difficulty, and little net debt repayment will be necessary. Soon after the Government has started repaying debts the creditors will "beg for mercy," and will be glad to accept the new issues, rather than have the capital repaid to them.

The international investment outlook, however, may affect the success of such a refunding policy, and the Government may actually have to repay the debt incurred during the war. As an illustration Steuart mentions the different position in which Great Britain found herself after the two wars in 1749 and 1763. After the former war a reduction of the rate of interest was possible and was generally accepted by the creditors, because no attractive alternatives were available.³ At the end of the second war, on the other hand, a large outflow of funds took place, because foreign lenders had played an important part in financing the war. This caused

9. *Ibid.*, p. 477. "We have said above, and experience proves the truth of it, that at the end of a war circulation becomes too full for domestic uses; and that the superfluity of money is realized upon property."

1. *Loc cit.*

2. *Ibid.*, pp 477-478.

3. *Ibid.*, p. 395.

the price of government securities to fall and no reconversion was possible.

On the other hand, if there exists a shortage of capital immediately after the war, reflected in a correspondingly high rate of interest, it may be advisable for a country to borrow abroad.⁴

Debt Limits. Steuart's position on the issue of debt repayment obviously raises the question of the effects of a continuous debt increase on the economy and the prospects of state bankruptcy as the ultimate result of such a policy. Both Hume and Smith had very strong convictions on that point, and predicted the inevitable breakdown of public credit. In this connection their refusal to learn from experience and face the facts realistically is remarkable. Coupled with these predictions are suggestions for policy which cannot be termed other than highly irresponsible, such as Smith's advocacy of "a fair, open, and avowed bankruptcy"⁵ as the best solution. The chaos which such a step would have precipitated can hardly be exaggerated; fortunately this was not the course which Great Britain followed.

Considering the hostile attitude of the classical writers toward public credit, their failure to distinguish between a public and a private debt, and the one-sided way in which they stressed its dangers, while overlooking important beneficial consequences, their position on this issue is not surprising. Although it would not be fair to charge them with inability to foresee important future developments, such as the tremendous growth of wealth and income which took place in Great Britain during the eighteenth century and particularly since the end of the Napoleonic Wars, their stubborn refusal to learn from the events of history must be held strongly against them. And this particularly in the light of the greater insight and understanding shown by one of their contemporaries, Sir James Steuart.

Two illustrations will support this point. In advocating an open repudiation of the public debt as the more desirable alternative to choose between the "temporary safety of thousands" (the stockholders) as against the sacrifice of millions, Hume remarks, "Either the nation must destroy public credit, or public credit will

4. *Ibid.*, p. 451: "That if the high interest at home proceeds from want of money, that is to say, from circulation not being full enough, it is their interest to borrow, were it for nothing else than to supply circulation; because unless this be full, all industry must languish."

5. Smith, *Wealth of Nations*, Modern Library Edition, p. 883.

destroy the nation.”⁶ He is convinced that the collapse of public credit is inevitable and only a question of time:

One would incline to assign to this event a very near period, such as half a century, had not our fathers’ prophecies of this kind been already found fallacious by the duration of our public credit *so much beyond all reasonable expectation*. . . . We shall, therefore, be more cautious than to assign any precise date, and shall content ourselves with pointing out the event in general.⁷

Despite this caution as to the exact timing, however, the event is certain. Summing up his discussion of the various “death alternatives” of the public credit, Hume says:

These seem to be events, which are not very remote and which reason foresees as clearly almost as she can do any thing that lies in the womb of time. And though the ancients maintained, that, in order to reach the gift of prophecy, a certain divine fury or madness was requisite, one may safely affirm, that, in order to deliver such prophecies as these, no more is necessary than merely to be in one’s senses, free from the influence of popular madness and delusion.⁸

Adam Smith takes a similar, though slightly more cautious, view:

Great Britain seems to support with ease, a burden which, half a century ago, nobody believed her capable of supporting. Let us not, however, upon this account rashly conclude that she is capable of supporting any burden; nor even be too confident that she could support, without great distress, a burden a little greater than what has already been laid upon her.⁹

Steuart, on the other hand, does not believe that the accumulation of internal debts must ever lead to bankruptcy.¹ Theoretically the process can go on indefinitely, since it involves only a transfer between various groups in the economy. What it means is that “the whole income of the nation will remain in perpetual fluctuation, passing from one set of creditors to another, the statesman still retaining the administration of it for their use.”²

This does not mean that such a scheme must necessarily

6. Hume, *op. cit.*, p. 13.

7. *Ibid.*, p. 17, footnote. (*Italics added*).

8. *Ibid.*, p. 18.

9. Smith, *op. cit.*, p. 882.

1. Steuart, *op. cit.*, Vol. II, p. 463: “Debts have increased far beyond the imagination of every mortal. Great men have uttered prophecies, which have proved false, concerning the consequences of a debt of one hundred millions. . . . I have been pretending to shew how they may go on in a perpetual chain. . . . How to determine the exact extent of public credit. The solution of which is, That it is not necessary that public credit should ever fail, from any augmentation of debts whatever, due to natives.”

2. *Ibid.*, p. 626.

succeed in practice³ and that bankruptcy can be excluded as a possibility. The extent to which debts can be increased depends greatly upon how far the people are willing to go along, and how the various groups are likely to react.⁴ The expansion of public debts and the transfer of property which it involves may disturb the tranquillity of the state. Increased "beyond due bounds" they may harm the interests of the proprietors and thus force the state to adopt "the fatal expedient of a sponge." On the other hand, "if the spirit of the people prove compatible with the system of borrowing and supporting public credit to the utmost extent,"⁵ such an outcome is not necessary.

If bankruptcy should occur, particularly as the consequence of a decay in trade or a disturbance in the collection of revenue, it would have the effect, according to Steuart, "of plunging the nation into utter ruin at home."⁶ The creditors would become poorer, consumption and demand for work would be proportionately diminished, and trade would suffer, not only directly, but also indirectly, because of the blow dealt to private credit. The abolition of taxes which goes with it will not bring the expected and desired results, namely, relief to the taxpayer. On the contrary, because of the decline of expenditures and consumption, everybody would be worse off, and trade and industry would suffer correspondingly.⁷

The same devastating effects would result from a bankruptcy purposely brought about by the state. It is impossible for any statesman to foresee and provide for all the consequences of such an action in his attempts to soften the blow to the economy. The

3. *Ibid.*, p. 455: "The whole of this hypothesis is, I readily agree, destitute of all probability; because of the infinite variety of circumstances which may frustrate such a scheme. I only introduced it to shew where the constant mortgaging of a public revenue may end; and to disprove the vulgar notion, that by contracting debts beyond a certain sum, a *trading nation which has a great balance in its favour*, must be involved in an unavoidable bankruptcy. To say that a *nation* must become bankrupt to itself, is a proposition which I think implies a contradiction."

4. *Ibid.*, p. 350: "If, all the interests of the state duly considered, that of trade be found to predominate, less inconvenience will be found in allowing the money'd interest to swell: but in monarchies, where the landed interest is the most powerful, it would be dangerous to erect so formidable a rival to it."

5. *Ibid.*, p. 626.

6. *Ibid.*, p. 458.

7. *Ibid.*, p. 460: "To say all in one word, a total bankruptcy, and abolition of taxes, would bring this nation back to the situation it was in before taxes and debts were known."

interests of all the groups in the economy are much too closely interrelated. Steuart rejects Hume's argument that the adverse effects of a voluntary bankruptcy could be limited to the creditors as fallacious and unrealistic. He concludes:

I should rather prefer to submit to the natural consequences which might result from an accidental bankruptcy, than endeavour to avoid them by a plan too complicated for human wisdom to execute.⁸

Although Steuart is optimistic with regard to the danger of state bankruptcy due to an increase of internal debts, he recognizes that it might result from foreign debts. This would come about primarily as a consequence of expensive foreign wars, resulting in a continuous drain of resources from the indebted country unable to export commodities in sufficient amount to offset imports and loan charges. Public credit "must fail, so soon as the nation becomes totally unable either to export commodities equal to all their imports and foreign debts, or to pay off a proportional part of their capital, sufficient to turn the balance to the right side."⁹

Balance of trade and foreign indebtedness must therefore be weighed carefully against each other.¹ The most important steps in a prudent debt administration, according to Steuart, are to repay the debts owed to foreigners as soon as possible, and to scrupulously observe the terms of agreements incurred with other nations. Only if this is done would it be possible to obtain assistance from other nations, if bankruptcy should threaten from "natural causes."

Steuart thus distinguishes between the effect of external and internal public debts and suggests the possibility of different policies in the two cases. On this point, also, he disagrees with Hume and Smith, who held the view that there was no difference between the two kinds of debts in their adverse effects upon the economy.²

8. *Ibid.*, p. 459.

9. *Ibid.*, p. 463.

1. *Ibid.*, p. 635: "From this reasoning we may conclude, that the method of determining the exact extent of public credit, is to keep a watchful eye upon the increase of debts due to foreigners, and to compare these with the favourable balance upon the trade of the nation. When those debts and this balance begin to draw near to an equality, if part of the capital of the public debts be not immediately paid off, by an augmentation upon public contributions, the infallible consequence will be state-bankruptcy."

2. Smith, *op. cit.*, p. 879: "But though the whole debt were owing to the inhabitants of the country, it would not upon that account be less pernicious."

III. BRITISH AND FRENCH CREDIT IN THE EIGHTEENTH CENTURY

Despite Steuart's optimistic outlook concerning the consequences of a continuous debt increase, history has often demonstrated that even internal debts can lead to bankruptcies and repudiation. In the light of these facts Steuart's description of the continuous flow of income between various groups without endangering the stability of public credit may seem a little artificial and unrealistic. He does not claim, however, that the dangers of internal bankruptcy can be eliminated without positive action on the part of the state. In one of the most revealing parts of his analysis he discusses the conditioning factors which account for the steady growth and supremacy of Britain's credit during the eighteenth century. Prudent and skillful debt management, enlisting the interest of wide groups of the population in their country's credit, made British credit what it was.

In an illuminating comparison between the British and French credit Steuart shows how imprudent and reckless debt management reversed the relative financial position of the two countries within less than a century, giving Great Britain a definite lead and making it imperative for France to radically revise her credit policy if she ever wanted to recapture her important position in international affairs. In the light of this analysis one could almost assert that debt management has made or unmade great nations.

Up to the time of the British Revolution (1688), France enjoyed a much more favorable financial position than Great Britain.³ In Richelieu's time trade and circulation had made much greater progress in France than in England in Davenant's day, and the revenue left by Henry the Fourth was twice as large as that of England at the time of the revolution.⁴ The value of her coin circulation had been maintained fairly constant for a considerable period of time, and Steuart praises Richelieu for his grasp of the principles of good debt management. Despite its earlier origin,⁵ however, French public credit fell hopelessly behind British credit, as soon as the latter was put on a solid footing.

3. Steuart, *op. cit.*, Vol. II, p. 378: "Let any man, acquainted in the least with the history of England, examine the fixed revenue there, . . . down to the revolution; and they will evidently see the great disproportion of wealth, proceeding from taxes, in the one and the other kingdom."

4. *Ibid.*, p. 377.

5. *Loc. cit.*: "Borrowing also, upon a fixed and permanent interest, had been known in France so far back as Francis the First."

Steuart believes that an important reason for the contrast in the development of public credit in the two countries was their different forms of government:

As long as the constitution of the two governments shall stand as at present, Britain will constantly have the advantage in borrowing: France will have it in paying off her debts. It is this contrast which engages me to enter into the following detail. I consider it not only as a piece of historical curiosity, but as a subject of profound reflection, from which much instruction may be gathered.⁶

In Great Britain the limited form of government "prevented the violent proceedings between ministers and public creditors, which were common in France; and this circumstance contributed, no doubt, to establish the credit of the former upon the better footing."⁷ Furthermore, the responsibility of the ministers to parliament prevented violations and breach of faith, acts common in the French history of public credit. However, the form of government does not itself necessarily incline public credit one way or the other. At times French credit was in a very strong and sound position.⁸

A more basic reason for France's credit troubles was that the creditors and the people did not have confidence in the country's credit standing. Public credit was still looked upon in the same way as private credit, and suspicion was increased by the unscrupulous way in which the monarch handled the debt. There was no feeling of the community of interest and the common benefit which would be derived from a strong public credit and a wide distribution of public debt holdings. But this, according to Steuart, is an essential condition for the development of public credit, which he defines as "the confidence reposed in a state, or body politic, borrowing money, on condition that the capital shall not be demandable."⁹

This confidence was carefully nurtured and strengthened in Great Britain by a most careful policy of debt management. In France, on the other hand, the prime postulate was completely disregarded; arbitrary acts of repudiation were common. Had

6. *Ibid.*, p. 367.

7. *Ibid.*, p. 358.

8. *Ibid.*, p. 107 "On the other hand, the rapid progress of credit in France before the Mississippi, and the stability of it from 1726 to the year 1759, abundantly proves, that nothing is more compatible than monarchy and confidence."

9. *Ibid.*, p. 349.

France adhered to the same policy as Great Britain, namely, "that the public faith pledged to her creditors to be inviolable", her public borrowing program might have been just as successful. Steuart gives two illustrations to prove his point.

The monetary scheme which John Law introduced in France met at first with great success. Law took over the discredited government obligations and insisted upon punctual payment of interest. The money which he advanced to the customers of the bank upon "every species of good security" filled a great need and put French industry to work. He established credit and confidence, and this in turn brought back into circulation all the coin which had previously been hoarded.¹ French industry and trade prospered. The situation was favorable for a gradual paying off of the public debt. It was only when the Regent took the arbitrary step of reducing the value of paper money that the whole scheme, which was based upon "*the confidence which the public had had in the state, which is what we mean by public credit*",² collapsed.

Again, after the war of 1748 a *caisse d'amortissement*, or sinking fund, was established in France to provide for the repayment of those sums which the bankers had advanced to the King during the war. A lottery system was set up and the fund was financed by a special revenue, the twentieth penny (one shilling in the pound). In 1759, however, the fund was discontinued, thus giving a "mortal blow" to French credit.

The absence of a large mercantile and trading class, which in Great Britain was the main support and beneficiary of government credit, made it more difficult to find a ready market for public securities in France. The King had to rely on a few bankers and financiers, who in turn borrowed the money for him. Their position was more secure because financially the King was absolutely dependent upon them. He could not afford to lose this source of credit. Since they made enormous profits on their transactions, the King in clearing his accounts with them resorted to various arbitrary methods to reduce his debts. Still, he usually left them enough to repay their creditors.

The French tax system was also very burdensome and its

1. *Ibid*, p. 615: "This effect was produced by an inconsiderable sum of notes, they did not exceed three millions sterling when Law gave up his bank."

2. *Ibid*, p. 285.

administration vexatious, two further reasons for the precariousness of the public credit. The oppressiveness of the tax system was in part a consequence of an inadequate monetary circulation. Attempts to establish a sound paper credit had met with only temporary success; no institution comparable with the Bank of England regulated the money stream in France. This put France in a weak financial position, particularly during war time. Her coin would leave the country or go into hiding, aggravating considerably the problem of raising sufficient revenue.

French revenue, as the result of the bickering between the King and Parliament over alternative plans for raising the additional money, was derived during the eighteenth century war years mainly from a double-poll or capitation tax and an increase of the tax on possessions, the *dixièmes* and *vingtièmes*. This system of taxation was inequitable and oppressive, and the necessity of removing these taxes immediately upon the return of peace made it impossible to use their yield for the repayment of the debt accumulated during war time.

Their burdensomeness was further increased by the indirect method of tax collection. The prospective yield of the taxes was advanced to the King by the tax-gatherers, to whom the revenues were mortgaged in return. Already Richelieu had complained bitterly about their extortionist practices. Although by agreement with the King the tax-gatherers were supposed to earn only a fair return upon their advances, they actually plundered the country to the limit. To prevent inspection by the King they used to burn their books at the end of the year. In Steuart's time this situation had considerably improved, but such a system proved extremely costly.

The comparative ability of two nations to raise extraordinary revenues in case of need is, according to Steuart, the best indication of the state of their credit. In this respect Great Britain was at a decided advantage. The establishment of a sinking fund as part of her debt management policy proved very valuable in cases of urgent need for additional revenue. The existence of a sinking fund, on which the Government could fall back to meet emergencies, afforded time to decide on the kind of taxes which could be imposed with the least inconvenience to pay for the service charges on the new loans. For this reason they did not have to be removed upon the return of peace, but could be retained as a permanent

addition to the revenue of the country. Thus they provided an additional fund of credit to Great Britain. The *dixièmes* and *vngtièmes* and the double-poll tax, on the other hand, which the French levied, could not, because of their purely temporary character, be used to strengthen France's credit position.³

Thus Steuart considers the sinking fund a useful instrument for strengthening confidence in the public credit, making it possible for the Government to borrow upon favorable terms.⁴ He is not much concerned about the danger, strongly emphasized by the classical writers, of its being abused and actually promoting wars by putting a ready fund at the disposal of the Government. He recognizes that the abolition of the sinking fund will not prevent wars; it will only make it more difficult and costlier to raise revenue, when the need for it arises.

Steuart realizes that the sinking fund may be used for current expenditures rather than for the service of the public debt. Powerful interests in the economy may get together and force the Government to reduce taxes or prevent their increase, thus making it necessary to apply the fund for current expenditures.⁵ To minimize the danger of such abuses during peace time, Steuart is in favor of having the revenues for the sinking fund appropriated in such a way "as to put it out of a nation's power to misapply them."⁶ In view of previous statements this suggestion must be interpreted rather flexibly. As a step in the right direction, Steuart proposes a clear distinction between the revenue appropriated for current government expenditures and that which should be set aside for the service of the public debt. "This however I apprehend is too much neglected in both kingdoms."⁷

The precariousness of the French credit expressed itself in

3 Ibid, p 439: "Those extraordinary resources of France cannot be mortgaged. They are supplies for the current service; but they are no fund of credit. Whereas the sinking fund of Great Britain is always ready in the mean time to supply urgent demands."

4. Ibid, p. 467: "The method, therefore, of borrowing money to the best advantage, is previously to establish a fund of credit, arising from annual taxes; to provide the people who are to pay them with money in proportion to their property or industry; and to prevent the latter from ever failing for want of the medium, money, for carrying it on."

5. Ibid, p 392 "Such combinations must occur, and frequently too, in every state loaded with debts, where the body of that people, the landlords, and the creditors, find an advantage in the non-payment of the national debt."

6. Loc. cit.

7. Ibid., p. 438.

the high interest rate and the short-term borrowing which it made necessary. In Great Britain credit was firmly established, and the creditors were interested primarily in a stable return on their investment. In France, on the other hand, the creditors were interested mainly in a speedy repayment of the principal, and would not lend money upon perpetual interest. The prevalent way of borrowing was therefore upon life annuities at ten per cent, with a lottery clause which stipulated that a large sum would be paid annually for extinguishing the capital. And Steuart comments, "The reason is, she is more punctual to such engagements." The creditors, under these terms, were in a position to control the government operations more closely and keep a watchful eye. Besides, they considered their investment as constantly being returned to them. On the other hand "when funds are settled at perpetual interest, people lose sight of the capital altogether."⁸

Comparing French and British debt practices Steuart concludes that Great Britain, because of her limited form of government and sober debt administration, was definitely in a better position for contracting new debts, while France, because of her arbitrary practices, had the advantage with regard to debt repayment.⁹

In one of his most illuminating statements Steuart warns, however, against rash conclusions from this contrast in debt administration.¹ The scrupulous adherence to the terms of public commitments in England created such an exacting and sensitive credit that the smallest deviation from its principles could prove fatal to the whole system.² Such manipulations would not necessarily lead to the breakdown of French credit, on the other hand

8. *Ibid.*, p. 440.

9. *Ibid.*, p. 628: "In France, the power of the Prince furnishes many expedients for paying off capitals, which had been borrowed at an exorbitant interest in times of public distress

"In England, the limited power of the crown, and the responsibility of ministers for their exercise of it, is a great security to those who lend money to the state; and consequently, proves a very great advantage in contracting debts upon reasonable terms."

1. *Ibid.*, pp 378-379: "Had one half of the acts of power been exerted with us, which have been so familiar in France had half the liberties been taken, in tampering with the claims of creditors; a total bankruptcy would long ere now have been the consequence: but in Britain credit is young; and has been tenderly reared In France she is old, and has been accustomed for many ages to rougher usage."

2. *Ibid.*, p. 628.

They might "throw a damp upon it for a time," and "may cost her very dear," but the people in France seemed to have become conditioned to them. To them the "credit of Great Britain must have appeared . . . in the light of a pettish child, educated in the house of a too indulgent parent."³

However, it did not follow that France should take comfort from this contrast. The mere fact that Great Britain has achieved such a high standard of debt management made it impossible for France to go on in her irresponsible fashion. Thus the progress of one country in its use of public credit gives her a financial superiority which forces other countries to improve their own system. This is particularly true in time of war.⁴ The growth and development of public credit in one country will not, as Hume had claimed, mean inevitable abuses, bankruptcy, and "poverty, impotence, and subjection to foreign powers." On the contrary, it is the country which refuses to respond and make full and prudent use of its public credit which will have to face such an alternative. But its bankruptcy then will not have been unavoidable, but of its own choosing! Hence Steuart concludes:

It is folly to prophecy, I know, but I may be allowed to conjecture, that the same causes which have raised the credit of this nation to such an amazing height, will either force the French from their old principles, or they will, some time or other, bury her credit in the dust ⁵

IV. THE "EVOLUTIONIST APPROACH"

We have seen that Steuart had a remarkable insight, far more penetrating than that of his contemporaries, enabling him to grasp the significance of current trends to which they were blind. The vitality of his analysis is still, two hundred years later, corroborated by the course of events — those same events which have consistently refuted the conventional views of his day. Thus we may call his method "dynamic," as opposed to the more static approach of the classical writers. In order to make his analysis of the public debt really useful and pertinent to modern discussion, however, it is necessary to go behind the term "dynamic," and try to

3. *Ibid.*, p. 379.

4. *Ibid.*, p. 359: "As long as nations at war observe the same policy in their methods of raising money, the ways in which they proceed are of the less importance: but when any one state makes an alteration, by which more money is thrown into their hands than they could formerly obtain; this circumstance obliges every other state to adopt the same method."

5. *Ibid.*, p. 378.

ascertain the significance of his historical perspective — to seek the essence of what Grossman has called Steuart's "evolutionist approach" to economic analysis.

This involves, first of all, *studying an institution within its context*. Steuart consistently related issues to their broader economic and social framework, and appraised policies in terms of the particular setting. This was in marked contrast to the classical tendency to deduce from a very special set of circumstances principles of avowedly universal validity, regardless of time and place.

To Steuart no course of action with reference to the public debt was good or bad in an absolute sense; everything hinged on the environmental situation which conditioned, and in turn would be influenced by, the policy decision. A program of continuous expansion of public credit would be feasible only under certain favorable circumstances. There should be a strong commercial class interested in the safe investment outlet which government securities provide, an effective banking system necessary to provide for adequate circulation, and a tax system so adjusted to the economy as to minimize interference with industry and trade.

The political structure most favorable for forceful government credit policy was one in which the Government was responsible to the people, and in which political participation by all social classes on a broad basis ensured that government measures reflected and reconciled the interests of the various groups. Above all, the people had to have faith in their Government; fundamentally, public credit rests upon popular confidence, and the attitude of the people is thus of primary importance. The statesman "ought carefully to attend to the spirit of the nation he governs, before he gives way to a regular and systematical augmentation of public debts."⁶ Such confidence must be constantly nourished and reinvigorated through a policy of careful and prudent fiscal administration, and integrity in international transactions.

Steuart is careful not to claim that expansion of public credit must invariably prove beneficial to the economy. He explicitly recognizes limiting circumstances, and the very real possibilities of abuse. On the other hand, he refuses to reject an important instrument of economic progress merely because it is open to abuse; he prefers rather to point to the dangers, indicating at the same time how they can be averted.

6 *Ibid.*, p. 626.

A second characteristic of the "evolutionist approach" is that it explicitly takes into account the fact of constant *change in the institutional context*.

The classical economists failed to see that the needs of a new and growing industrial and commercial middle class required a sound public credit; that the growth in wealth and income and an improved tax system made it much easier to support the growing debt; and that an adequate banking structure facilitated the channeling of funds between individuals and the government, allowing for much greater flexibility in debt management.⁷

Especially mistaken was the appraisal by the classical economists of the political trend of their time. The same current of laissez-faire liberalism which rejected Steuart along with mercantilism accounted for the individualistic anti-state bias which blinded orthodox theory to the necessary and positive economic rôle of the Government. They were unable to grasp what Steuart saw so clearly — that the steady development of democratic forms was giving the people a stake and voice in the Government which in itself constituted the primary guarantee of responsible and non-arbitrary public debt management, and provided strong safeguards against the debt abuses of an earlier period.

It is not mere description of change, however, that makes analysis dynamic. The really pragmatic and constructive theorist goes still further, to demonstrate that *current policies are themselves instruments of change*. In examining the historical development of the government debt, Steuart stresses not only the extent to which the public credit is dependent upon prevailing circumstances, but also that it has, in turn, been pivotal in furthering social evolution and progress, and thus molding those circumstances. This is why he insists that it is the task of the statesman both to adapt to the spirit of the day and at the same time take measures to modify these views:

The great art therefore of political economy is, first to adapt the different operations of it to the spirit, manners, habits, and customs of the people, and afterwards to model these circumstances so, as to be able to introduce a set of new and more useful institutions.⁸

7. Cf., on the other hand, Steuart, *op. cit.*, Vol II, p. 443: "Europe was possessed by our ancestors free from taxes; our fathers saw them imposed, and we see how fast they become mortgaged for our debts. We can as little judge of the extent of our credit, as they could of the possibility of contributing so large a fund for the support of it."

8. *Ibid.*, Vol. I, p. 2.

Steuart may have gone too far in ascribing omniscience to the statesman, but his approach seems certainly more constructive than the classical negation of the rôle of the state and the fiction of non-intervention. More than any of his contemporaries Steuart was aware of the forces which make for progress, and likewise of the potentialities of organized group action for controlling and guiding these forces in the desired direction.

V. CONCLUSION: STEUART'S POSITION

The question arises whether this method of "enlightened optimism" — of stress on the continuous process of adaptation to, and modification of, institutional factors that are in ceaseless flux — can arrive at any useful or valid scientific principles. Grossman has pointed out that "the particular task of the social sciences is . . . not to seek for eternal laws, but to find the *law of change* itself"⁹; and Steuart has demonstrated that such laws of change can reveal underlying relationships that are meaningful anywhere at any time, and that serve to bridge the gap between theory and history. The most important of his guarded and inductive generalizations are relevant to modern public debt discussion, and deal with some of the vital problems connected with it. A brief summary sketch of his position should substantiate this point.

Like many outstanding modern writers, Steuart was primarily concerned with the over-all income flow — the problem of distribution. He believed that at times, without positive state measures to stimulate consumption and to open investment outlets, the productive stream in the economy might stagnate, and that the accumulation of idle pools of purchasing power could only result in deflation. His contemporaries charged him with being, like the mercantilists, more preoccupied with monetary than with real phenomena. What they failed to understand was that in the absence of full employment, which they implicitly assumed, velocity of circulation can actually cause trouble; it is only when the monetary stream is full and adequate that it does not constitute a problem.

Thus Steuart sees it as the function of the state to draw stagnant funds out of hoards, via taxation or public borrowing,

9. H. Grossman, "The Evolutionist Revolt Against Classical Economics, I," *Journal of Political Economy*, October, 1943, p. 386. (Italics added.)

and channel them into useful and productive government expenditures, thus ensuring that the income flow will complete its circuit. This should be done out of regard for the general economic welfare; the interests of the many are not automatically harmonized with those of the few or the individual, but only through deliberate social control. In practice, interventionism is not new or renaissance; even after the mercantilists it continued, despite the proclamation of the *laissez faire* doctrine, to be a vigorous and growing social force.

This concept of the public debt as one of the state's devices for facilitating the transfer of funds between groups in a society shaped Steuart's position on the issue of repayment and debt limits. It enabled him to see what is so widely stressed today, that continuous debt increase does not have to end in bankruptcy, since the funds are funneled right back into the economy.

At the same time Steuart did not let his over-all approach blind him to the differential impact upon the various groups affected; hence his emphasis on the need to respect the "spirit of the times," and to carefully nurture popular confidence in the public credit. Even today we often have to be reminded that a great deal hinges upon "how people feel" about the public debt, and that the real limits to its expansion are psychological and social, rather than economic.¹

Steuart's reasoning is often obscure and confusing, his style heavy and pedantic, and his conclusions not so clearly and precisely stated as those of orthodox writers. He is also much less dogmatic and self-assured. This is partly due to his persistence in making only limited generalizations, and always relating them to the historical and institutional framework. One consequence is that he was neglected by his own and following generations. Another more important consequence is that, because of this very unwillingness to abstract from time and place, he has much to contribute to modern analysis of a problem which continues to be of paramount significance.

WALTER F. STETTNER.

WASHINGTON, D. C.

1. Steuart, *op. cit.*, Vol. II, p. 442: "This is a very rational conclusion from past experience; but it is only relative to the circumstances of past times. While the debtors are the masters, there is no difficulty of getting clear of debts: but if the consequence of this new system should be to make the creditors the masters, I suppose the case might be different."