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AN ANALYTICAL OUTLINE OF SIR JAMES STEUART'S MACROECONOMIC MODEL¹

By M. A. AKHTAR

THIS paper attempts to render Sir James Steuart's macroeconomic ideas into a concise form. Specifically, it is aimed at sorting out the main elements and links in Steuart's analysis of a developed economy. In general, studies of various facets of Steuart's thought have not treated his ideas as a *complete* system or, in most cases, even as an integral part of such a system. However, Steuart viewed various parts of the economic system as highly interdependent and sought to establish an integrated framework for economic analysis. It seems therefore appropriate to attempt to *modernize* his whole arrangement in the form of a model.²

The exact setting of the model in this paper is best established by an overview of Steuart's analysis of the process of change and the role of public sector in the exchange or money economy. According to Steuart, the exchange economy passes through three stages: infant trade, foreign trade, and inland trade. The main economic problem during the closed economy of infant trade is economic growth and the statesman 'is to encourage the manufacturing of every branch of natural productions, by extending the home-consumption of them; by excluding all competition with strangers; by permitting the rise of profits, so far as to promote dexterity and emulation in

¹ This paper is a drastically modified and shortened version of an unpublished paper with the same title which was originally presented at the Atlantic Economic Conference in Washington on 12 Sept. 1975. I am indebted to James L. Cochrane, Robert V. Eagly, William K. Hutchinson, Francis Spreng, Charles E. Staley, and two referees of this journal for helpful comments and suggestions. However, neither these individuals nor the Federal Reserve Bank of New York where I am currently working share any responsibility for the views expressed in this paper.

² The first edition of Steuart's *An Inquiry into the Principles of Political Oeconomy*, two volumes, was published in 1767. His other important writings on political economy are: *A Dissertation on the Policy of Grains* (1759); *A Dissertation upon the Doctrine and Principles of Money Applied to the German Coin* (1761); *Consideration on the Interest of the County of Lanark in Scotland* (1769); and *The Principles of Money Applied to the Present State of the Coin of Bengal* (1772). *The works of Sir James Steuart*, six volumes, published in 1805 and reprinted by A. M. Kelley in 1967, contains all of these works. *An Inquiry into the Principles . . .* [hereafter referred to as *Principles*], was edited with a very valuable introduction by Andrew S. Skinner and republished in somewhat abridged form in 1966. The references in this paper will be made to the 1966 edition of the *Principles* and to the 1967 reprint of *The Works*.

While most of the contemporary studies of Steuart's economics are mentioned in the footnotes of this paper, a more comprehensive list may be compiled by pooling together the selected bibliography in S. R. Sen, *The Economics of Sir James Steuart* [cited below as Sen, *Economics of Steuart*] (London: Bell & Sons, 1957), pp. 201-2; the list of references provided by Douglas Vickers in his review article in *The Journal of Economic Literature*, 8 (Dec. 1970), 1190-5; and the sources mentioned in the various footnotes of Skinner's 'Analytical Introduction' [cited below as Skinner, 'Introduction'] to the 1966 republished edition of the *Principles*.

invention and improvement'.³ The main economic problem for the open economy of foreign trade is also economic growth. However, the ruling principles for public policy 'are to banish luxury; to encourage frugality; to fix the lowest standard of prices possible; and to watch with the greatest attention, over the vibrations of the balance between work [supply] and demand'.⁴ In the stage of inland trade, the economy is closed once again and 'augmentation of every kind' comes to a stop;⁵ therefore, the major economic problem is the maintenance of full employment in the face of frequent cyclical fluctuations. Accordingly, the emphasis of economic policies is on circulation and the associated vibrations in the balance of wealth with a view to maintain the full-employment level of economic activity:

The statesman must, in such a case [inland trade], as in the other two species, attend to supplying the wants of the rich, in relieving the necessities of the poor . . . but as formerly he had it in his eye to watch over the balance of work [supply] and demand, so now he must principally attend to the balance of wealth, as it vibrates between consumers and manufacturers; that is between the rich and the industrious.⁶

It is obvious from the foregoing that Steuart's macroeconomic ideas take *full* shape during the stage of inland trade, which is marked by a high degree of interdependence and cyclical fluctuations from the full-employment level. Hence, the model presented in this paper represents the closed economy of that stage. Steuart visualized an evolution of social and economic institutions between various stages such that his analysis of the stage of inland trade incorporates more variables and relations as well as a more extensive and elaborate set of institutions as compared with the first two stages. Therefore, the following model is not directly relevant to a discussion of the stages of infant and foreign trade.⁷

³ *Principles*, p. 263. Steuart used the notion of 'statesman' to refer to the government sector. This was unfortunate because he was far from advocating a totally planned economy or despotic rule. See Sen, *Economics of Steuart*, pp. 23–4; and Vickers, *op. cit.*, pp. 1190–1.

⁴ *Principles*, p. 263

⁵ *Ibid.*, pp. 196 and 310.

⁶ *Ibid.*, p. 264. Steuart did not consider the state of inland trade as the final point, rather he seemed to have thought that industrially developed economies would move back and forth between the states of foreign and inland trade. This means that economic growth reaches a temporary rather than a permanent limit in the stage of inland trade. See *Principles*, p. 338. See also, Skinner, 'Introduction', p. lxxviii, and Sen, *Economics of Steuart*, pp. 64–5 and 140–1. The argument about the inevitability of inland trade—which is based on the view that, over time, domestic prices get out of line with world prices eventually making it necessary to replace foreign trade with inland trade—is summarized in *Principles*, Book 2, ch. 18, and Skinner, 'Introduction', pp. lxxvii–lxxviii.

⁷ Steuart's analysis in each of the three stages is amenable to some type of mathematization or modernization, and in a dynamic framework a comprehensive model could be used for all three stages. The latter, however, would not be representative of Steuart's thought because several additional relations, variables, and assumptions would have to be introduced which were unknown to him. In my recently published paper, 'Sir James Steuart on Economic Growth' [cited below as Akhtar, 'Steuart on Growth'] *Scottish Journal of Political Economy*, 25 (Feb. 1978), 57–74, I have presented a model based on Steuart's analysis of the stage of infant trade. This paper may be viewed as a counterpart for the stage of inland trade. At the outset, two

The paper is divided into seven sections. Sections I–V outline the main elements of Stuart’s economic model. Section VI presents an analysis of circulation, equilibrium, and economic change for the stage of inland trade. Section VII concludes the paper with an overview of Stuart’s contributions.

I. Employment and production

Stuart viewed the society as composed of ‘farmers’ and ‘free hands’ with each group producing a surplus to be exchanged for the other’s products. However, the agricultural surplus is absolutely necessary for the existence of non-agricultural classes. For Stuart, the size and growth of population must ultimately depend upon the agricultural sector; while ‘trade, industry, and manufactures, tend only to multiply the numbers of men, by encouraging agriculture’.⁸ Like Petty and the Physiocrats, he used a theory of agricultural surplus in order to integrate the agricultural and non-agricultural sectors, but his analysis of interconnections is more complete. The exchange process is based on a triangular relationship between the agricultural surplus, the output of non-agricultural goods and money. The latter is the primary medium of exchange as well as the principal expression for effectual demand.⁹

The free hands or non-agricultural population ‘may be employed in manufactures, trades, or in any other way, according to the taste of the times’ but a more concise twofold classification of the free hands envisaged by Stuart is between those engaged in manufactures, and those who must earn wages from the sale of personal services.¹⁰ Stuart’s definition of personal services is the same as Smith’s definition of unproductive labour but, unlike Smith, he did not consider such services to be unproductive.

⁸ *Principles*, p. 50. See also *ibid.*, pp. 110–21.

⁹ *Ibid.*, p. 45. See also Sen, *Economics of Stuart*, pp. 45–9. Stuart’s *Principles* was written between 1749 and 1767, essentially the same period when the physiocratic thought flourished in France. However, the main outline of the *Principles*, in particular Books 1 and 2 which contain an integrated analysis of agricultural and non-agricultural sectors, was developed, by and large, independently of physiocratic writings. See Paul Chamley, *Documents Relatifs à Sir James Stuart* (Paris: Librairie Dalloz, 1965), pp. 71–82. See also Skinner, ‘Introduction’, pp. lxix–lxx.

¹⁰ *Principles*, pp. 54, 58, 318; and Skinner, ‘Introduction’, pp. lxix–lxx. While this twofold classification does not preclude others, it is the most appropriate one from the viewpoint of the production process.

Footnote 7 (continued)

points should be made regarding this paper. First, while the following analysis does not deal with the movement to and from the stage of inland trade, it should not be taken to mean that the stage in question is a *terminus*. On the contrary, Stuart appeared to have believed that the statesman may design some policies in the stage of inland trade with a view to regain capacity to compete with other nations in the future. Second, parts of the analysis in Sections I–III are, out of necessity, *somewhat* similar to parts of the analysis in Akhtar, ‘Stuart on Growth’. However, even in these sections the thrust of arguments is crucially different from that in the earlier paper.

Moreover, personal services play an important role in Steuart's analysis of circulation and the balance of wealth during the stage of inland trade. Thus Steuart's exchange economy may be viewed as composed of three interdependent sectors: the agricultural sector which produces necessities, the manufacturing sector which produces luxuries, and the personal service sector where people must earn money income in order to buy necessities as well as luxuries.

Consider a stationary-state (zero growth) economy with the maximum sustainable labour force N^* ; of which N_A^* are employed in the production of agricultural goods, N_M^* in the production of manufacturing goods, and N_H^* in the production (sale) of personal services. In order to simplify the analysis, assume that (i) each of the three sectors produces a homogeneous product—'necessity', 'luxury', and 'attendance' in the agricultural, manufacturing, and service sectors, respectively—and (ii) labour force in each sector is equal to population. The full-employment annual output of the agricultural commodity (Q_A^*) may now be written as:¹¹

$$Q_A^* = m_A N_A^* \quad (1)$$

where m_A is the per person or average output in the agricultural sector.

If s is the per person subsistence everywhere in the economy, the total sustainable labour force or population is given by:

$$N^* = Q_A^*/s = (m_A/s)N_A^*. \quad (2)$$

Combining (1) and (2), the full-employment level of non-agricultural labour force may be expressed as:

$$N^* - N_A^* = Q_A^*[(1/s) - (1/m_A)] = N_A^*[(m_A/s) - 1]. \quad (3)$$

It can be seen from equation (2) that total population or labour force is determined by the size of agricultural output. Specifically, the proportion of total labour force to agricultural labour force is equal to the ratio of average (=marginal) productivity in the agricultural sector to average consumption of food in that sector. Furthermore, dividing (2) by (3) indicates the relationship between the agricultural and non-agricultural labour force depends upon $s/(m_A - s)$, i.e. the ratio of farmer's consumption of food to his surplus product.¹² Thus, if the average agricultural surplus is greater than the average consumption of food in the agricultural sector, the non-agricultural labour force will be larger than the agricultural labour force and vice versa.

The full-employment annual output of a homogeneous manufacturing

¹¹ Both the agricultural and the manufacturing sectors are subject to constant per person output. See Akhtar, 'Steuart on Growth', p. 60.

¹² *Principles*, pp. 54–5.

good (Q_M^*) may be expressed as:

$$Q_M^* = m_M N_M^* \quad (4)$$

where m_M is the average or per person output in the manufacturing sector. Although the manufacturing sector consumes a part of its own product, the main function of Q_M^* is to provide wherewithal to buy necessities from the agricultural sector and probably services from the service sector.

N_M^* represents only a portion of the free hands.¹³

$$N_M^* = a(N^* - N_A^*) \quad (5)$$

where $0 < a < 1$. The labour force of the service sector is a residual:

$$N_H^* = N^* - N_A^* - N_M^* = (1 - a)(N^* - N_A^*). \quad (6)$$

N_H^* must earn money income from the sale of personal services in order to buy both necessities and luxuries. Therefore, the contribution of the service sector to economic activity must be expressed in value or non-physical terms. Since the service sector produces a homogeneous product, its price may be regarded as uniform throughout the economy. Specifically, if w is the annual *per capita* money wage rate, the total monetary value of the service sector output is $wN_H^* = w(1 - a)(N^* - N_A^*)$. Thus, the important question is what determines w ? This is discussed in the next section.

II. Prices, wages, and income

The price of a commodity, Steuart believed, is equal to the real value or cost of production *plus* a mark-up component (profit).¹⁴ The real value is determined by the number of units produced in a specific time period, and the value of raw materials and labour's subsistence. The extent of profit depends upon market conditions. Under competitive conditions or what Steuart called 'double competition' the supply and demand are in equilibrium and 'prices are found in the adequate proportion of the real expence of making the good, with a small addition for profit to the manufacturer and the merchant'.¹⁵ However, this 'perfect' balance of supply and demand may be 'overturned by the force of a simple competition [monopoly or monopsony], or by one of the scales preponderating'.¹⁶ Although, in a static

¹³ *Ibid.*, pp. 58, 54–5, and 318.

¹⁴ *Ibid.*, pp. 159–61.

¹⁵ *Ibid.*, p. 189.

¹⁶ *Ibid.*, p. 190. See also, *ibid.*, p. 173 and *Works*, ii, p. 223. It should be noted that Steuart like many other earlier writers, emphasized demand as opposed to supply because he held that suppliers are, in fact, demanders for what the other party has to offer. This, however, does not mean that he neglected the supply side, rather that he appeared to believe that the initiative comes from the demand side. Anyway, it is in this context that his terminology of 'double competition' or 'demand and competition' is to be understood. See *Principles*, Book 2, chs. 2, 5, 7, and 28.

framework, the supply and demand conditions affect only the mark-up component of prices (profit), in a dynamic sense if the preponderance of demand causes high profits to exist for a long time, they will become 'consolidated', i.e. a part of the effect will be transmitted to the real value through higher wages.¹⁷ Put differently, Steuart treated both the real value and the market value as relative concepts.¹⁸

In view of the foregoing analysis, the price-determining equations for the price of agricultural goods (P_A) and the price of manufactured goods (P_M) may be written as:

$$P_A m_A = P_A s + V m_A \quad (7)$$

$$P_M m_M = P_A s + V m_M \quad (8)$$

where V is the per unit profit in money terms, assumed to be the same in both agricultural and manufacturing sectors. The size of V depends upon the supply and demand conditions, and it is determined at the *normal* level if there is a perfect balance or equilibrium. Equations (7) and (8) express the value of output per person produced during a given time period. Rewrite (7) for P_A :

$$P_A = [1/(1 - (s/m_A))]V. \quad (7a)$$

Insert (7a) into (8) and simplify to obtain:

$$P_M = \{[(s/m_M)/(1 - (s/m_A))] + 1\}V. \quad (8a)$$

Steuart's theory of wages is similar to his theory of prices in that there is a minimum level for wages, and the mark-up component above the minimum is determined by the supply and demand conditions. The cost of 'physical necessary' or ample (not bare) subsistence sets the minimum, however, 'the price of manufacturer's [labourer's] wages is not regulated by the price of subsistence, but by the price at which his manufacture sells in the market'.¹⁹ Nevertheless, Steuart recognized some influence of the price of subsistence on the wage rate in so far as it influences the price level.²⁰ The maximum to which wages may rise is set by the general price level. The actual wage rate fluctuates between the upper and the lower limits depending upon supply and demand conditions in the labour market. In practice, only the most inferior type of labour receives the minimum or the cost of physical

¹⁷ *Principles*, pp. 192–93. A similar analysis of Steuart's theory of value is presented in Sen, *Economics of Steuart*, ch. 4; and D. Vickers, *Studies in the Theory of Money 1690–1776* [cited below as Vickers, *Theory of Money*] (Philadelphia and New York: Chilton, 1959), pp. 249–61.

¹⁸ Value is a relative term; there is no such thing as absolute value . . . The measure of value, then, must be that which measures not the positive worth of anything; but the relative worth of all things compared with one another', *Works*, iv, p. 175.

¹⁹ *Principles*, p. 691. See also *ibid.*, pp. 400–1; and *Works*, v, pp. 312–16.

²⁰ *Principles*, pp. 188 and 691.

necessary, while wages for all higher grades of labour would cover 'political necessary' and would be proportionately higher for 'superior ingenuity'. Like most of his contemporaries, Steuart believed that too high wages would make the domestic prices less competitive with the world prices and, therefore, result in unfavourable effects on the domestic economy during the stage of foreign trade. However, unlike most of his contemporaries, he recognized the deleterious effects of low wages and emphasized the importance of increased consumption and circulation (especially during the stages of infant and inland trade) associated with relatively high wages.²¹ In any case, this brief analysis indicates that the annual *per capita* money wage rate (w) may be written as:

$$w = P_A s + E \quad (9)$$

where E is the monetary magnitude which fluctuates according to the supply and demand conditions of labour. Substitute (7a) for P_A and rewrite (9) as:

$$w = [s/(1 - (s/m_A))]V + E \quad (9a)$$

The total full-employment income of the economy (Z^*) consists of monetary value of goods and services produced in agricultural, manufacturing, and service sectors:

$$Z^* = P_A Q_A^* + P_M Q_M^* + w N_H^* \quad (10)$$

$$Z^* = am_M V \left(1 - \frac{s}{m_A}\right) \left[1 + \frac{x}{1 - (s/m_A)} + \frac{am_M V}{(1-a)E}\right] N^* \quad (10a)$$

where $\bar{x} = (s/am_M)[1 + \{1/(1 - (s/m_A))\}]$. Note that (10a) is not a *solution* because only s , m_A , m_M , and a are known constants, and at this stage it is not possible to solve for all other variables.

III. Money, circulation, and the balance of wealth

Steuart's analysis of money is more advanced than classical economists' in that he did not consider it as a veil superimposed on 'real' analysis. In fact, his monetary theory and analysis of circulation represent a complete theory of the economic process.²² At the same time, his analysis is free of mercantilist fallacies and confusions regarding money and precious metals. According to Steuart, money is an abstract concept and its value cannot be fixed to perpetuity in terms of precious metals or other commodities.²³ He

²¹ *Ibid.*, pp. 403–4; and *Works*, v. pp. 293 and 316.

²² Cf. J. A. Schumpeter, *History of Economic Analysis* (New York: Oxford University Press 1954), pp. 296–7.

²³ *Principles*, p. 409. For a detailed discussion of the subject see *Principles*, Book 3, Part 1, chs. 1, 2, and 3; and Book 4, Part 2, chs. 3 and 7. See also Sen, *Economics of Steuart*, pp. 82–4; and Vickers, *Theory of Money*, pp. 274–80.

held that money has two main functions: a measure of value function and a purchasing-power function. In its role as a measure of value, money is used as an equivalent for exchangeable goods and services; therefore changes in its supply and demand conditions, through their effects on the level of circulation and the balance of wealth, influence the level of economic activity. Money may also influence economic activity in its role as a means of purchasing power in that it can be borrowed at a price (interest) for productive or unproductive purposes.²⁴

Steuart visualized an appropriate 'proportion between the produce of industry and the quantity of circulating equivalent . . . for the purchase of it'.²⁵ He, however, recognized that the supply of money 'bears no determinate proportion to circulation; it is the money circulating, multiplied by the number of transitions from hand to hand'.²⁶ He maintained that the number of hand-to-hand transitions (velocity) is determined by 'the propensity of the rich to consume; the disposition of the poor to be industrious; and the proportion of circulating money, with respect to one and the other'.²⁷ If K is the quantity of notes and coins in the hands of public and h is the velocity of *circulation* (i.e. money multiplier), then the supply of money (M) may be written as:

$$M = hK; \quad \text{with } h > 1. \quad (11)$$

The demand for money depends upon the 'ready-money demands' (uses of money) which, in turn, depends upon 'the state of trade, of manufactures, of modes of living, and of customary expence of the inhabitants'.²⁸ The aggregate demand for money or what may be called the mass of ready-money demands is reflected in 'prestations' or 'performances' which are either 'corporeal' or 'incorporeal'.²⁹ The former includes 'consumables'—things that become useless after being consumed—and 'inconsumables' while the latter consists of personal services and rights in things.³⁰ These four types of performances are all in fact either consumables or inconsumables, and it is this distinction which is crucial from the viewpoint of circulation and the associated 'vibrations' in the balance of wealth. While consumable performances cause vibrations in the balance of wealth, inconsumables do not. Thus, when money is exchanged against inconsumables such as a piece of land, there is no change in the balance of wealth because both money and land are inconsumables, and therefore the position is

²⁴ *Principles*, p. 44; Book 4, Part 1, ch. 4.

²⁵ *Principles*, p. 323. See also *ibid.*, pp. 350 and 444.

²⁶ *Ibid.*, p. 715. See also *ibid.*, pp. 323–25 and 712–13.

²⁷ *Ibid.*, p. 324.

²⁸ *Ibid.*, p. 496.

²⁹ *Ibid.*, pp. 310–19. See also E. A. Johnson, *Predecessors of Adam Smith* (New York: Prentice Hall, 1937), p. 224.

³⁰ *Principles*, pp. 310–11.

merely reversed. The situation is completely different when money is exchanged for consumables since the latter are eventually used up. Of course, the faster a good is consumed, the faster will be the changes in the balance of wealth.

In terms of the present model, the consumable performances are represented by the agricultural, manufacturing, and service sectors. Let J^* be the full-employment monetary value of inconsumable performances during the course of a given time period, the demand for money (L) may then be expressed as:

$$L = Z^* + J^* = P_A Q_A^* + P_M Q_M^* + wN_H^* + J^*. \quad (12)$$

The first two terms on the right-hand side of (12) represent corporeal performances and the third term takes notice of the ready-money demands for personal services.

At the equilibrium level, the demand for money must equal the supply of money:

$$M = L = hK = P_A Q_A^* + P_M Q_M^* + wN_H^* + J^*. \quad (13)$$

While the algebra of (13) is quite trivial, the underlying explanations advanced by Steuart are quite sophisticated and deserve a careful consideration.

It is rather well known that Steuart rejected the simple quantity theory of money and attempted to elucidate causal relations underlying the superficial axioms of the quantity theory as propounded by Montesquieu and Hume. He was interested in showing just how a change in the quantity of money will be transmitted to the general price level. His main contribution in this respect is to point out that variations in the quantity of money can affect the general price level only through the demand for particular commodities and their prices, and that in a given position of equilibrium the quantity of money in circulation is determined by the general price level.³¹ Put differently, in the macroeconomic context, the level of money supply is responsive to changes in economic activity and prices, although in the microeconomic context it may influence prices via demand.

Steuart was keenly aware of the fact that the circular nature of the economic process is a monetary phenomenon and believed that it must be examined in terms of 'the nature, properties, and effects of circulation'.³² The statesman, he argued, 'must combine the consequences which result

³¹ *Ibid.*, pp. 343–56; and *Works*, ii, pp. 254–55. See also Andrew S. Skinner, 'Money and prices: a critique of quantity theory', *Scottish Journal of Political Economy*, 14 (Nov. 1967), 275–90; this paper and Vickers' *Theory of Money*, pp. 261–70 provide an in-depth analysis of Steuart's monetary theory.

³² *Principles*, p. 323. Steuart defined circulation as 'the successive transition of money, or transferable commodities, from hand to hand, and their return, as it were in a circle, to the point from which they set out'.

from the transition of money, and attend to the effects produced by it' and attempt to maintain the equilibrium between the supply of, and demand for, money taking full account of monetary as well as non-monetary effects of circulation.³³ If h is given, the equilibrium in equation (13) may be maintained by manipulating K . However, the main problem arises from the fact that h is volatile (consumption of the rich and industry of the poor are not stable!), that is, responds to aggregative as well as distributive changes on the right-hand side of (13). Further, K itself is also influenced by similar changes. Any change in the aggregate of transactions will affect h unless there is a counteracting change in K . But even if both K and the aggregate of transactions remain unchanged, the value of h may fluctuate due to the overturning of the balance of wealth in favour of those who exchange consumables for inconsumables, thereby causing changes in the relative proportion of riches among individuals.³⁴ In the case where the aggregate of transactions is increasing, Steuart tended to emphasize changes in K .³⁵ The implication here is that unless h is maintained at the desired level by introducing appropriate changes in K , the growth process will be stifled, and if the economy has reached the production possibility frontier, it will not be possible to sustain that level.

It is now sufficiently clear that the crucial feature of Steuart's analysis of monetary equilibrium is the concern with circulation and its impact on economic activity. This same concern is the dominant theme of his discussion of interest on money; however, he failed to integrate it into his analysis of monetary equilibrium. In sharp contrast to the classical analysis, the rate of interest appears as a purely monetary phenomenon, with important consequences for monetary circulation, balance of wealth, and economic activity: 'the introduction . . . of loans upon interest, is a very good expedient to accelerate circulation and to give birth to industry'.³⁶ According to Steuart, the price of money, just like the price of any other commodity, is determined by demand and competition, although it is susceptible of greater stability and uniformity. More specifically, the rate of interest is determined by the demand for loanable funds and the quantity of money available for lending.³⁷ The demand for loanable funds consists of business loans as well as consumer loans. Like most of his contemporaries, Steuart believed that 'low interest is the soul of trade' but, unlike them, he recognized the policy

³³ *Principles*, pp. 323–4.

³⁴ *Ibid.*, p. 313. See also, *Works*, ii, p. 249.

³⁵ When trade and alienation increase, *ceteris paribus*, so will money; that is, more solid property will be melted down; and when trade and alienation diminish, *ceteris paribus*, so will money; that is some of the solid property formerly melted down will consolidate', *Principles*, p. 498.

³⁶ *Ibid.*, pp. 327 and 326.

³⁷ *Ibid.*, pp. 449–54; and *Works*, iv, pp. 323 and 367.

significance of the relationship between the quantity of money and the rate of interest. He argued that since alterations in the quantity of money influence the rate of interest, it is an important tool for changing the level of economic activity.³⁸

The demand for loanable funds may be thought of as a proportion of the aggregate demand for money, such that the expression for the rate of interest (i) may be represented by:

$$i = dL/K; \text{ with } 0 < d < 1. \quad (14)$$

d is an empirical magnitude based on the demand for loanable funds for both productive and unproductive purposes. Note that, at the equilibrium level, the rate of interest is determined by d and the velocity since $L = hK$. While equation (14) oversimplifies the expression for the rate of interest, it adequately reflects Stuart's basic position on the relationship between the rate of interest and the quantity of money.

IV. Taxes, public debt, and government expenditures

Steuart held that taxes, public borrowing and government expenditures are important instruments of public policy for employment and output. His main argument is based on the fact that all three areas of fiscal policy are complementary to one another, therefore, an analysis of the effects of any one of them must necessarily involve an analysis of the effects of the other two. More specifically, the importance of taxes and public debt is not in themselves but in that the money raised by the government must be spent which increases circulation and stimulates economic activity.

Taxes together with their expenditure promote industry and increase the level of employment:

Every application of public money implies a want in the state; and every want supplied, implies an encouragement given to industry. In proportion, therefore, as taxes draw money into circulation, which otherwise would not have entered into it at that time, they encourage industry; not by taking the money from individuals, but by throwing it into the hands of the state, which spends it: and which thereby throws it directly into the hands of the industrious, or of the luxurious who employ them.³⁹

Steuart conceded that the tax may discourage industry by curtailing private consumption; however, he argued that when the tax is spent, it would more

³⁸ 'A statesman has it in his power to increase or diminish the extent of credit and paper money in circulation, by various expedients, which greatly influence the rate of interest', *Principles*, p. 462. See also *ibid.*, pp. 657–8. The various expedients include restrictions on the prodigal consumption, paying off public debts, and suspension of further borrowing by the state. *Works*, iv, pp. 324–5. It may be worth while to note that Steuart emphasized that the low or high interest rate is a relative term (*Principles*, p. 461) but he is not very clear just what he means by this. A careful reading of the relevant passages suggests that he may have been attempting to relate the rate of interest to some form of profit. See *Principles*, pp. 451–2 and 467–8. Cf. Sen, *Economics of Steuart*, p. 103.

³⁹ *Principles*, p. 725; especially relevant to the present discussion are chs. 9 and 10 of Book 5; and chs. 26 and 27 of Book 2.

than offset any negative effect on private consumption because public wants are more extensive than individual wants. Furthermore, taxes tend to make people industrious and a nation richer by curbing idleness and inducing hard work.⁴⁰ His general conclusion is that if taxes are judiciously levied with a view to advance the public welfare, they enrich a nation by (a) increasing the level of employment; (b) increasing circulation and promoting trade and industry; (c) redistributing resources in favour of the industrious; and, in general, (d) putting in the armoury of a good statesman the means of removing all different types of abuses from the society.⁴¹

Keeping in mind that Steuart defined a tax as 'a certain contribution of fruits, service, or money, imposed upon the individuals of a state, by the act or consent of the legislature, in order to defray the expences of the government'⁴² and using a uniform rate of taxation, the annual amount of taxes (T) may be viewed as a fraction of total full-employment income:

$$T = tZ^* = t(P_A Q_A^* + P_M Q_M^* + wN_H^*) \quad (15)$$

where t is the rate of taxation and $0 < t < 1$. Equation (15) includes all of Steuart's proportional, personal, and cumulative taxes except those levied upon property, but this is not a deviation because he held that taxes should be imposed on net income so that they would fall on 'the rich and the idle consumer'.⁴³

Unlike every other writer since Davenant's *Essay Upon Ways and Means* in 1695 (up to and including Adam Smith, David Hume, and most of the classical economists), Steuart regarded public debt as fundamentally different from private debt, in its nature and effects. He believed that 'while the debts of a nation are due to its own subjects... it is a contradiction to suppose that a nation can become bankrupt to itself' and noted that 'if the spirit of the people prove compatible with the system of borrowing and supporting public credit [debt] to the utmost extent, the whole income of the nation will remain in perpetual fluctuation passing from one set of creditors

⁴⁰ See *ibid.*, Book 5, chs. 5 and 6; and *Works*, iv, pp. 269 and 385–6.

⁴¹ *Ibid.*, pp. 267–8. It is interesting to note that Steuart was keenly aware of the indirect benefits of taxation stemming from redistribution through circulation and changes in the balance of wealth. See *Principles*, pp. 708–9.

⁴² *Ibid.*, p. 673.

⁴³ *Ibid.*, pp. 683 and 703–8. Steuart classified taxes into three categories: (i) proportional taxes which are levied on expenditure, and are essentially equal to what we call indirect taxes; (ii) cumulative taxes which are imposed on income and property, and are essentially equal to what we call direct taxes; and (iii) personal taxes which fall upon personal services. Two facets of Steuart's discussion of taxes, though not directly relevant to the present analysis, merit a mention. First, Steuart presented a rather complete discussion of the incidence of taxation as well as a crude version of the progressive taxation. See *ibid.*, Book 5, chs. 3, 4, and 11; Sen, *Economics of Steuart*, pp. 127–8; and E. R. Seligman, *Progressive Taxation* (Princeton: Princeton University Press, 1908), p. 185. Second, Steuart discussed the concept of taxable fund which consists of total income of the agricultural and non-agricultural sectors *minus* whatever is required for physical necessary. *Ibid.*, pp. 677–9 and 734–5.

to another, the statesman still retaining the administration of it for their use'.⁴⁴ In practice, however, 'a thousand accidents may, and certainly will, put an end to the public credit' before this can happen.⁴⁵ Therefore, the ultimate limit to the public debt is the socio-political structure.

The main feature of Steuart's discussion of public debt is the emphasis on the employment and expansion effects. He argued that 'public borrowing, for domestic purposes, has the good effect of giving vent to the stagnation and throwing the money into a new channel of circulation' which increases 'the permanent income of the country'.⁴⁶ Since it is financed by 'money stagnating, which the owner desires to realize', public debt is not a reduction in the amount of private investment, rather a supplement to it. Furthermore, the increased circulation and liquidity brought about by public debt will cause further melting-down of property. However, note that public debt itself depends upon the adequate supply of circulating medium; therefore, if the statesman wants to borrow, he must ensure a sufficient quantity of money, and he should refrain from borrowing when 'the circulation is full'.⁴⁷

Since the amount of annual government expenditures (G) must equal the amount of annual taxes, as expressed by equation (15), plus the flow amount of annual public debt (D), the basic relation of the public sector may be expressed as:

$$G = T + D = tZ^* + D. \quad (16)$$

Equation (16) adheres to Steuart's contention that the contribution of taxes and public debt cannot be assessed without simultaneously examining the

⁴⁴ *Works*, iv, pp. 375 and 364. See also, *Principles*, pp. 647 and 654.

⁴⁵ *Works*, iv, p. 374. See also, *Principles*, p. 646.

⁴⁶ *Ibid.*, p. 644. Elsewhere Steuart noted: 'When government borrows, the lenders must be people who have money. If the loan be made at home, the money is no sooner paid in, than it is spent; and as we may suppose that it would not have been lent, had either the lenders found it necessary for their current expence, or had they found a more profitable way of realizing it than by lending it to government, we consider it as having been in a state of stagnation; but being lent to government, it is thrown into a new channel of circulation', *ibid.*, p. 642. Steuart realized that one of the immediate effects of an increase in public debt is to favour 'moneyed interest' by causing changes in the balance of wealth between individuals, but he did not consider this in itself as harmful to the society because he believed that moneyed men are more industrious than landed men (*Principles*, pp. 600–1), and that 'the firm establishment of public credit tends greatly to introduce these reciprocal sentiments of goodwill among the two classes of a people [the moneyed men and the landlords], and thereby preserve a balance between them', *ibid.*, pp. 639–40. Furthermore, he argued that in a developed economy where no appreciable increases in wealth are possible, the growth of credit is a method of melting down the causes of inequality. *Ibid.*, pp. 316–17.

⁴⁷ Especially relevant to the discussion on public debt are: *Principles*, Book 4, Part 4, chs. 8 and 10; and Book 2, chs. 26 and 27. For a detailed analysis of Steuart's views on public finance, see Sen, *Economics of Steuart*, ch. 8; S. R. Sen, 'Sir James Steuart's general theory of employment, interest, and money', *Economica*, 14 (Feb. 1947), 19–36; and Walter F. Stettner, 'Sir James Steuart on the public debt', *Quarterly Journal of Economics*, 59 (Nov. 1945), 451–76. Sen, *Economics of Steuart*, p. 122, has noted that 'A. P. Lerner's chapter on functional finance [in *The Economics of Control*] seems almost a paraphrase of Steuart'. This, of course, is the essence of Steuart's discussion of public finance, i.e. public finance is viewed as an instrument of social and economic policy to be used as a balance-wheel in the economy.

effects of government expenditure. Another feature of this equation, underlined in the above discussion, is that D is not determined by the current level of income; some of the current debt may be financed by the liquidation of property and/or by the idle funds from previous time periods.

V. Consumption and aggregate demand

Consumption is central to the explanation of the basic links in Steuart's economic model, especially in the stage of inland trade. The maintenance of full-employment level of output in a developed economy depends upon the level of consumption and changes in that level. According to Steuart, the propensity to consume luxuries—the so-called level of aspirations—in the agricultural sector determines the size of non-agricultural sectors.⁴⁸ In a closed economy, the stage of inland trade—during which the problem is to sustain the full-employment levels of consumption and output by introducing the necessary changes in the level of circulation—sets in when the level of aspirations reaches the optimum, that is increases in it no longer induce increases in the agricultural surplus needed to support the additional production of luxuries.

Both wealth and income are considered as sources of current consumption in Steuart's model. He repeatedly referred to 'the rich and the idle' who consume without producing, and fully recognized that a portion of this type of consumption comes from those to whom a part of the current surplus directly belongs (therefore it is related to income) while another portion comes from those who consume from the 'revenue in money already acquired' and/or from other assets that can be converted into credit or money.⁴⁹ He also noted that 'the increase of consumption proceeds from the increase of wealth'.⁵⁰ His basic position in this respect seems to be that the level of consumption is 'influenced by wealth, yet never can be regulated by it'.⁵¹ The propensity to consume, Steuart seemed to suggest, depends on income. There are repeated references in the *Principles* to the fact that the amount of consumption 'is in proportion to income' and that 'consumption and demand for work would diminish in proportion to part of . . . income withheld'.⁵²

⁴⁸ See *Principles*, Book 1, chs. 5 and 6. A detailed analysis of the aspiration effect is provided by Robert V. Eagly, 'Sir James Steuart and the aspiration effect', *Economica*, N.S. 28 (Feb. 1961), 53-81; and Akhtar 'Steuart on Growth'.

⁴⁹ See, for example, *Works*, ii, pp. 249-50; and *Principles*, pp. 58, 678, 683, 704, and 719.

⁵⁰ *Works*, i, p. 195.

⁵¹ *Works*, ii, pp. 255-6.

⁵² *Works*, iv, p. 333; and *Principles*, p. 649. Also see *ibid.*, pp. 452 and 731. It should be noted that c_1 (as well as c_2) in equation (17) may change not only due to changes in aspirations, but also due to changes in the balance of wealth, the rate of taxation, and public expenditures. In other words, the problem of consumption demand is discussed in terms of both a given schedule and shifts in that schedule. See *Principles*, Book 2, chs. 27 and 28, and Book 5, chs. 5 and 6.

Steuart's position on the relationship between consumption, income, saving, and investment is summarized in question 3 of the last chapter of the *Principles*, which deals with the concepts of income and taxable fund. To review briefly, he maintained that the annual gross income of the society is divided into consumption, taxes, and saving; where consumption includes the consumption of both 'necessaries' and 'superfluities'. Furthermore, he argued that only a part of the current saving is converted into 'superlucration' (investment goods). In this chapter, as elsewhere, private investment is the most neglected aspect of Steuart's discussion of aggregate demand. While he recognized that the private sector will not automatically convert all of its annual savings into investment, he failed to present an analysis of the investment process.

Based on the above analysis, the aggregates of annual consumption (C), saving (S), and investment (I) in relation to the full-employment income may be written as:

$$C = c_1(Z^* - T) + c_2W \quad (17)$$

where $0 < c_1 < 1$, $0 < c_2 < 1$, and W is the total non-human wealth of the society. The saving function implied in (17) is:

$$S = Z^* - C - T = (1 - c_1)(Z^* - T) - c_2W. \quad (18)$$

The annual amount of investment is only a fraction of saving:

$$I = rS = r[(1 - c_1)(Z^* - T) - c_2W] \quad (19)$$

where $0 < r < 1$.

By combining equations (15), (16), (17), (18), and (19), the *equilibrium* level of income may now be stated as:

$$Z^* = C + S + T = C + I + G = C + I + T + D. \quad (20)$$

Note that D is a supplement to I in that at the equilibrium level $S = I + D$.

VI. Equilibrium and circulation

An examination of the equation system of the model reveals that there are twenty-four variables, but only twenty equations; therefore, the model is logically incomplete and cannot be *solved*.⁵³ Two more equations are easily obtained since the model is assumed to represent the equilibrium in the stage of inland trade. In this case, Steuart's analysis suggests that there would be only *normal* (necessary or subsistence) profits at the equilibrium.

⁵³ There are ten equations (1 through 10) for the supply side, six (15 through 20) for the demand side, and four (11 through 14) for the money-market. The 24 unknowns of the system are Q_A^* , Q_M^* , N^* , N_A^* , N_M^* , N_H^* , P_A , P_M , w , V , E , M , K , L , J^* , i , T , D , G , W , C , S , I , and Z^* .

Similarly, his discussion of 'political necessary' provides a clue for the determination of the mark-up component of the wage rate at a *fixed* level. Ergo, the uncertainty regarding *V* and *E* may be resolved in a way that is quite consistent with Steuart's analysis. Steuart's discussion of public debt, summarized above, indicates that it may be assumed as an autonomous factor in the context of the present model. A similar assumption about the quantity of money appears to be consistent with Steuart's treatment of that subject. Thus, four equations obtained in this fashion would allow us to solve the model. It is, however, not important to present a formal solution of the model. The important thing about the model is that, despite its crude nature, it outlines the main elements of the system in a fairly inter-related way, although it does not always provide adequate explanations for the existence of various links and, in a few cases, it fails to provide any links at all.

As a whole, Steuart's analysis indicates that he visualized a balance of supply and demand at the micro level as well as at the macro level, and throughout he attempted to integrate micro into macro relations.⁵⁴ In between the micro and the macro levels, there is the balance of wealth which embodies some micro elements and some macro elements. Like the balance of supply and demand, the balance of wealth is also very important as a guide to economic policy. However, the importance of the balance of wealth is not in itself—rather in that it involves changes in circulation. These changes and the associated vibrations in the balance of wealth have productive as well as distributive effects during the stages of infant and foreign trade, but their effects are mainly cyclical during the stage of inland trade.⁵⁵ The main concern during the stage of inland trade is to maintain the full-employment level of economic activity by introducing appropriate changes in circulation and, in this case, Steuart tended to concentrate more heavily on the demand side. Put differently, since economic growth is at a standstill, the statesman is to minimize cyclical fluctuations in the economy.

Steuart cast the problem of maintaining the full-employment level of economic activity in the context of a rather peculiar notion of equilibrium. Unlike the prevalent view in economic theory, Steuart's equilibrium is *unstable*; he believed that the economic system has a perpetual tendency to

⁵⁴ Most relevant to the subject at hand are: *Principles*, Book 2, chs. 26, 27, and 28; and *Works*. iv. pp. 319–34 and 373–91. Sen, *Economics of Steuart*, pp. 56–7, has noted that prestations and money symbolize the aggregate supply and the aggregate demand, respectively. This is not quite correct because (1) Steuart, as noted by Sen himself, presented a detailed discussion of changes in the balance of wealth between individuals, i.e. micro elements of the analysis; and (2) the concept of prestations includes not only exchange of goods and services but also transfer of assets and rights in things (in this sense, Steuart's concept of velocity has a remote similarity to Fisher's transactions velocity). Thus, the interpretation suggested here is a more accurate view of Steuart's analysis.

⁵⁵ *Principles*, p. 310.

drift away from (rather than tending towards) equilibrium and that the natural forces are not likely to cause a return to equilibrium.⁵⁶ In the macroeconomic sense, Steuart's equilibrium is an ideal position, which *always* implies the state of full employment. Moreover, in the stage of inland trade, the balance of supply and demand is not only an ideal position but also a necessary working condition to sustain the existing level of economic activity. Thus, the statesman must attempt to correct any movements towards disequilibrium.

The main source of difficulty at the full-employment equilibrium is h in equation (11), which may be constantly changing, thereby causing instability in the level of circulation and pushing the system away from equilibrium. Underlying the instability of h are demand as well as supply factors. On the demand side, the 'propensity of the rich' is volatile which may affect aggregate demand through the influence of circulation and vibrations in the balance of wealth on c_1 and c_2 in equation (17). On the supply side, it is the 'industry of the poor' which may reduce output to below full employment in equation (10a).

Another factor making it difficult to sustain the full-employment level of economic activity is that only a portion of saving is converted into investment (equation 19), while the remainder is *locked up*. Presumably this is why the propensity of the rich is important in maintaining circulation. In general, however, Steuart almost completely ignored the role of investment, and concentrated on consumption. Two other possible sources of dis-equilibrium are related to equations (9) and (14). Steuart appeared to have believed that lower wages and higher interest rates would discourage circulation and, *ceteris paribus*, would lead to lower levels of economic activity.

Besides the sumptuary legislation, the statesman may use K , T , and G in order to increase (decrease) circulation and demand. An increase in K will increase money income which will increase the demand for commodities. This will cause prices to go up in the short run. But in the long-period equilibrium, 'prices will return to their original standard' due to demand and competition.⁵⁷ Thus, the new equilibrium of the demand for and supply of money (equation 13) will be achieved at the original level of employment

⁵⁶ See, for example, *ibid.*, p. 217.

⁵⁷ *Principles*, p. 344. In line with his emphasis on the demand side, Steuart asserted: 'A statesman . . . must endeavor to keep his balance even; and if a subversion be necessary, it is far better it should happen by the preponderancy of the scale of demand. Here is my reason for preferring this alternative'.

'All subversions are bad, and are attended by bad consequences. If the scale of work [supply] preponderate, the industrious will starve . . . If the scale of demand preponderate, luxury must increase, but the poor are fed at the expence of the rich, and the national stock of wealth stands as it was'. *Works*, ii, pp. 244–5.

but at a lower value of h . The increased quantity of money would also lower the rate of interest through equation (14). As noted elsewhere in this paper, Steuart did not provide any definitive link between the rate of interest and the level of economic activity, except that, like most of his contemporaries, he made repeated assertions that the low rate of interest promotes trade and industry.

Steuart's analysis of the effects of taxes, public debt, and government expenditures on the level of employment and economic activity may be elucidated by manipulating a part of the model.⁵⁸ Insert equations (15), (16), (17), and (19) into equation (20); simplify and obtain:

$$Z^* = \left[\frac{1}{1 - (r(1 - c_1) + c_1)(1 - t) - t} \right] (D + (1 - r)c_2 W). \quad (20a)$$

Equation (20a) describes the nature of relationships on the aggregate demand side of the economy; together (10a), (13), (14), and (20a) represent a summary view of the model. The bracketed expression in (20a) is the multiplier. Of course, Steuart was not fully aware of the multiplier implications of his analysis, but he repeatedly insisted that the positive effect of government expenditures on employment and economic activity is much larger than the comparable negative effect of taxes and public debt which are the sources of government funds.⁵⁹ Note that there is only a remote resemblance between this multiplier and the usual 'Keynesian' type multiplier. The difference arises not only because, unlike the simple Keynesian multiplier, an increase in the rate of taxation (t) would increase the level of Z so long as the economy is below full employment, but also because both c_1 and c_2 may be volatile in the short run as well as in the long run due to changes in circulation and the balance of wealth. Finally, since the notion of equilibrium always implies the state of full employment in Steuart's model, the expression for the multiplier cannot be used as any more than a reference point for income and employment policy.

VII. Conclusion

In the preface to the *Principles*, Steuart observed:

It [*Principles*] goes little further than to collect and arrange some elements relating to . . . population, agriculture, trade, industry, money, coin, interest, circulation, banks, exchange, public credit and taxes. The principles deduced from all these topics appear tolerably consistent; and the whole is a train of reasoning, through which I have adhered to the connection of subjects as faithfully as I could: but the nature of the work being a deduction of principles, not a collection of institutions, I seized the opportunities which my reasoning threw in my way, to

⁵⁸ Steuart also discussed the role of government in increasing the supply of goods by establishing factories and expanding industries. See, for example, *Principles*, Book 2, chs. 10 and 12. For a detailed analysis of Steuart's economics of control, see Sen, *Economics of Steuart*, ch. 9; and R. L. Meek, 'The economics of control prefigured by Sir James Steuart' *Science and Society*, 22 (Winter 1958), pp. 289-305.

⁵⁹ *Principles*, pp. 642-4 and 724-6. Also see p. 293, n. 1; and p. 295, n. 1 of this paper.

connect every principle, as I went along, with every part of the enquiry to which I could refer . . . Had I been master of my subject on setting out, the arrangement of the whole would have been rendered more concise.⁶⁰

Thus, he sought to establish a plan and to link every part of his inquiry to that plan. In this sense the *Principles* is a systematic treatment, just as systematic as the *Wealth of Nations*, although, as noted by Skinner, the plan of the latter is more satisfactory than that of the former.⁶¹ In any case, this paper has attempted to execute Steuart's plan for the developed economy of the stage of inland trade and the inter-relations of that plan in a faithful and scientific way, as far as that is possible. As should be expected, this formulation reveals several weaknesses as well as strengths of his analysis.

In general, Steuart concentrated more heavily, especially in the stage of inland trade, on the demand side than on the supply side. The most serious flaw in his treatment is that it completely neglected the subject of capital accumulation, and the role of capital in the production process. The omission of capital led to confusion between profits and wages as well as to indeterminacy of prices in his analysis.⁶² Similarly, Steuart's failure to recognize the importance of capital and capitalistic organization led him to ignore the implications of technical progress for the growth process, even though he seems to have been aware of the advantages of machinery.⁶³ Steuart also neglected to analyse the distributive shares of factors of production at the aggregative level. Furthermore, his notion of equilibrium as the ideal as well as the necessary condition for the satisfactory operation of the economy is somewhat untenable, especially because he felt that it must be obtained at all costs, at least in the stage of inland trade. It was perhaps this particular aspect of his thinking, more than any other, which led to his obsession with interventionism, and his very naïve faith in the ability of the statesman.⁶⁴

Notwithstanding the weaknesses, Steuart made many useful contributions to the history of economic analysis. He rejected the simple quantity theory of money and sought to explain the underlying relationships between money and prices. While monetary theory was a popular subject during the seventeenth and eighteenth centuries, only Steuart presented a complete analysis

⁶⁰ *Ibid.*, pp. 6–7.

⁶¹ Skinner, 'Introduction', pp. lx and lxxxiii. See also Schumpeter, *History of Economic Analysis*, p. 176. Cf. H. R. Sewall, *The Theory of Value Before Adam Smith* [1910] (New York: Kelley, 1968), pp. 115–16; and H. W. Spiegel, *The Growth of Economic Thought* (Englewood Cliffs, New Jersey: Prentice-Hall, 1971), pp. 215–16.

⁶² See R. L. Meek, 'The rehabilitation of Sir James Steuart', in *Economics and Ideology* (London: Chapman & Hall, 1967), pp. 7–9.

⁶³ See, for example, *Principles*, pp. 121–5, and 255–6.

⁶⁴ The emphasis on government intervention was an important element in limiting the influence of Steuart's work on subsequent thought. For further analysis of factors behind the limited impact of Steuart's work, see Meek op. cit., Skinner, 'Introduction' and Akhtar, 'Steuart on Growth'.

of the monetary phenomena and the circular process; Harris and Hume can be said to have come closest to this view of monetary theory. Steuart's analysis of taxes, public debt, and public expenditure bears some resemblance to the modern views on those subjects. In this respect it is important to note that he fully grasped the role and importance of the public sector not only as a compensatory mechanism but also as a stimulus to economic growth.

The classical economists, as noted by Schumpeter, 'reasoned in terms of a particular historical situation which they uncritically idealized and from which they uncritically generalized'.⁶⁵ By contrast, a distinguishing feature of Steuart's analysis is his evolutionary approach to the economic problem. He did not theorize on the assumption of a given set of social and economic institutions. Rather, like Marx and Schumpeter, he paid considerable attention to the changing institutional fabric of the society. The movement from the stage of infant trade to the stage of inland trade is much more than a movement of economic magnitudes. The whole institutional environment is undergoing serious changes which continuously complicate the framework of economic analysis. Within this changing framework, economic growth and the increasing degree of interdependence unify as well as dominate Steuart's analysis. In the stage of inland trade, as economic growth comes to a halt, the primary focus of the analysis shifts to the maintenance of full-employment equilibrium. However, in the process of reaching the stage of inland trade Steuart made some original contributions to the theory of international trade,⁶⁶ and developed a full-fledged theory of growth in which the level of aspirations, money, and the public sector are placed in a crucial role during the growth process.⁶⁷

In view of the many contributions of Sir James Steuart, it is only proper to conclude that 'it is to claim very little to say that Steuart is often strongest where by common consent, Smith is weakest; in the analysis of banking, public credit and paper money'.⁶⁸

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⁶⁵ J. A. Schumpeter, *Capitalism, Socialism, and Democracy* (New York: Harper, 1947), p. 75.

⁶⁶ A detailed analysis of Steuart's theory of economic growth is provided by Akhtar, 'Steuart on Growth'. Cf. Carl G. Uhr, 'Sir James Steuart's theory of economic growth', read at the 1975 History of Economics Society Conference at Harvard University. For a comparison of Steuart's theory of growth with that of Adam Smith, see M. A. Akhtar, 'A comparative analysis of growth theories of Adam Smith and Sir James Steuart' presented to the 1976 Adam Smith Bicentennial meetings of the Eastern Economic Association at Bloomsburg State College, Pa., USA.

⁶⁷ For an analysis of Steuart's contributions in the area of international trade, see E. A. J. Johnson, *op. cit.*, pp. 225-34 and 314; and Jacob Viner, *Studies in the Theory of International Trade* (New York and London: Harper & Brothers, 1937), chs. 1 and 2.

⁶⁸ Skinner, 'Introduction', p. lxxxiv.