

# James Steuart on the Ancient Economy

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## 1. Introduction

In his *An Inquiry into the Principles of Political Economy*<sup>2</sup> Steuart repeatedly refers to the ancient<sup>3</sup> system of economy in order to deduce and examine the principles of modern economy. Steuart's approach of comparing the modern economy with the ancient, however, has been given little attention by critics. The purpose of this paper is to show how Steuart understood the ancient economy and how important his understanding of the ancient economy was for his economic theory. The question will be pursued mainly through examining various manuscripts written by Steuart. The most important of them is his annotations on Xenophon's *Ways and Means*, which was published for the first time in Furuya (2014)<sup>4</sup>.

Steuart made these annotations in 1760, just after completing the first draft of Books 1 and 2 of *the Principles*. Steuart described Xenophon's *Ways and Means* as 'this most valuable discourse' and firmly attested its significance: 'It is a *chef d'oeuvre* of its kind, and from it more light is to be had, in relation to the subject we are here upon, than from any thing I have ever seen, ancient or modern'.

By examining *the Principles* and Steuart's annotations on Xenophon's work, this paper concludes that Steuart's understanding of the ancient economy was vital to some of the core features of *the Principles*: First, his study of the ancient economy provided strong support for his refutation of Hume's and Montesquieu's quantity theory of money. Secondly, the method he used to judge Xenophon's plan seems to have further confirmed Steuart's defence of mercantilist policy, which Hume was criticising.

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<sup>2</sup> Hereafter cited as *the Principles*.

<sup>3</sup> Steuart does not define the word 'ancient'. He uses the word in contrast with 'modern', by which he means the last two to three hundred years. He sometimes uses the word 'ancient' to focus specifically on the era of ancient Greece and Rome where slavery was established.

<sup>4</sup> Furuya (2014). "Steuart on Xenophon's *Ways and Means*" *The Keizai Gaku: Annual Report of the Economic Society Tohoku University* 74(2): 67-80.

## 2. Modern and ancient system of economy

When writing *the Principles* Steuart consults situations in ancient times over and over again. He says: "I never can sufficiently recommend to my readers to compare circumstances, in the oeconomy of the antients, with that of modern times; because I see a multitude of new doctrines laid down, which, I think, never would have been broached, had such circumstances been properly attended to." (Steuart 1767: I 437)

The most important discussion in *the Principles* where Steuart refers to the ancient economy is his discussion in Book 2 Chapter 30. And by comparing the first draft of *the Principles* (1759), Steuart's annotation on Xenophon's work (1760), and the printed edition of *the Principles* (1767), we see that in Question 7 of Book 2 Chapter 30, two sentences in the first draft were deleted and replaced by a lengthy insertion in the printed edition. And that this 800-word insertion is wholly based on Steuart's annotation on Xenophon's *Ways and Means*.<sup>5</sup> In this insertion, by receiving further factual information from *Ways and Means*, Steuart puts forward several additional ideas. Most important among them are: (1) explanation of the state of gold and silver in ancient Athens, and (2) approval of Xenophon's plan under the ancient system of slavery. Let us examine these points in detail.

## 3. Argument against the quantity theory of money

In the inserted paragraphs of Steuart (1767) and in the annotation on *Ways and Means*, Steuart turns his attention to Xenophon's supposition that all the rich people would contribute to the Athenian fund. Steuart regarded this as a significant difference between the ancient and the modern worlds, which is worth noting. He says that '[i]n our days, such an idea would appear ridiculous; in the days of Xenophon, it was perfectly rational' (Steuart 1767: I 461) and that 'such contributions were better to be expected in those days, than at present' (Furuya 2014: 75). The reason is clear. It is because '[a]t that time great quantities of gold and silver were found locked up in the coffers of the rich: this was in a great measure useless to them' (Steuart 1767: I 461) and 'those who have more than their occasions require, hoard it up, with as much pleasure, as if they used it. A modern would have said, let it out at interest' (Furuya 2014: 77).

This was important to Steuart because he saw it as solid historical

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<sup>5</sup> See Furuya (2014) pp. 73-79.

evidence with which to support his explanation of the so-called price revolution.

In antient times, money was not wanting; but the taste for superfluities not being in proportion to it, the specie was locked up. This was the case in Europe four hundred years ago. A new taste for superfluity has drawn, perhaps, more money into circulation, from our own treasures, than from the mines of the new world. [...]

It is more, therefore, through the taste for superfluity, than in consequence of the quantity of coin, that trade comes to be established; and it is only in consequence of trade that we see industry carry things in our days to so high a pitch of refinement and delicacy. (Steuart 1767: I 176-77)

He repeats this observation later in a forthright manner: '[t]he general taste for the extension of industry, is what has brought such loads of money into circulation; not the discovery of America' (Steuart 1767: I 441).

This observation gives support to Steuart's economic theory through various channels, such as the importance of demand: *The Principles* emphasises the important role demand plays in the development of trade and industry. But the most direct channel Steuart had in mind here is the support this observation offers to his theory on money; in particular, through refutation of the quantity theory of money.

In Chapters 28 and 29 of Book 2, Steuart exhaustively refutes Hume's and Montesquieu's argument on the relation between the quantity of money and the price of commodities. He sums up their argument as follows: 'that the price of every thing depends upon the *quantity of specie* in the country, which they consider as the representation of *every thing vendible*; as if these two quantities, the *commodities*, and the *specie*, were divided into aliquot parts, exactly proportioned to one another' (Steuart 1767: I 515, his italics). He goes on to provide a comprehensive and cogent theoretical counterargument to Hume and Montesquieu.<sup>6</sup>

Steuart comes back to this topic in Chapter 30, this time taking a historical and factual approach.

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<sup>6</sup> Marx found this counterargument of Steuart's so compelling that he borrowed Steuart's argument completely when refuting the quantitative theory of money (Marx 1859: 135-42).

I have endeavoured to shew, that the price of goods, but especially of articles of the first necessity, have little or no connection with the quantities of specie in a country. [...] A slight review of this matter, in different ages, will set it in a clearer light than a more abstract reasoning can. (Steuart 1767: I 437)

In those days of small circulation, the prices of every thing must have been vastly low, not from the great abundance of them, but because of the little demand; and as a proof of this, I cite the example of a country, which, within the space of fifty years, possessed in *specie* at one time, considerably beyond the worth of the land, houses, slaves, merchandize, natural produce, moveables, and ready money, at another. The example is mentioned by Mr. Hume, and I am surprized the consequence of it did not strike him. For if the money they possessed was greatly above the worth of all their property, moveable and immoveable, surely it never could be considered as a representation of their industry. (Steuart 1767: I 438, his italics)

According to Steuart, (1) the price of commodities is determined by the complicated operations of demand and (2) competition and specie have their intrinsic value. This touches the core of his economic theory, in which he says that it is essential for the statesman to set a stable standard of money and to introduce bank money and various forms of credit money according to the expansion of demand and circulation.

#### 4. Defence of the mercantilist policy

Another factor which touches the core of Steuart's economic theory is that when you address an economic principle or an economic policy, you must seriously consider the spirit of the people and the circumstances. Steuart praised Xenophon's plan on the ground that it 'was to reap all the benefits we at present enjoy from it, without producing any change upon the spirit of the Athenian people' (Steuart 1767: I 460). He writes, 'Xenophon recommends to the state to perform, by the hands of their slaves and strangers, what a free people in our days are constantly employed in doing in every country and industry' (Steuart 1767: I 462). The message here is clear: that, however ridiculous something may seem from a modern perspective, it may be perfectly rational if you consider the circumstances; and that economic policy must be consistent with the spirit of the people.

The main reason Steuart highlighted this point in *the Principles* is that he felt the need to refute some of the liberalistic economic opinions that were gradually coming into fashion. Steuart regarded them as oversimplified and juvenile.

I find it is the opinion of the learned Mr. Hume, that *there is no such thing as a balance of trade, that money over all the world is like a fluid*, which must ever be upon a level, and that so soon as in any nation that level is destroyed by any accident, while the nation preserves the number of its inhabitants, and its industry, the wealth must return to a level as before.

To prove this, he supposes four fifths of all the money in Great Britain annihilated in one night, the consequence of which he imagines would be, that all labour and commodities would sink in their price, and that foreign markets would therefore be entirely supplied by that industrious people, who would immediately begin to draw back such a proportion of wealth, as would soon put them again upon a level with their neighbours.

This reasoning is consistent with the principles we have examined, and *humbly rejected in the preceding chapter*; both stand upon the same foundation, and *lead to a chain of consequences totally different from the whole plan of this inquiry*. (Steuart 1767: I 416, my italics)

This combination of Hume's price-specie flow mechanism and denial of the balance of trade is, according to Steuart, in complete conflict with Steuart's economic theory. Steuart argues that, just as an economic policy presupposing slavery may be sensible in some circumstances, economic policy pursuing a favourable balance of trade may also be sensible in other circumstances.

*In order to promote industry, a statesman must act, as well as permit and protect*. Could ever the woollen manufacture have been introduced into France, from the consideration of the great advantage England had drawn from it, if the King had not undertaken the support of it, by granting many privileges to the undertakers, and by laying strict prohibitions on all foreign cloths? Is there any other way of establishing a new manufacture any where? (Steuart 1767: I 425, my italics)

In the manuscript, Steuart is more critical of Hume's denial of mercantilist policy. Hume (1759) attacks England's past economic policy, for

example economic policy under the reign of Henry VII, including such measures as laws prohibiting the exportation of money, plate, or bullion; prohibition of the export of horses; and fixed prices for woollen cloth, caps and hats. Hume writes, '[i]t is evident, that these circumstances *ought always to be let free*, and must be trusted to the common course of business and commerce' (Hume 1759: I 64, my italics). Steuart refutes Hume's attack on each and every one of these measures, declaring that they were all sensible, given their surrounding circumstances. Steuart expostulates with Hume about this offhand application of liberalism to historical policy: 'We ought to be very sparing in our censures upon political institutions when we are not fully informed of every circumstance' (Steuart 1760).

This protest against oversimplified liberalistic economics was one of Steuart's main objectives in writing *the Principles*. He expressed it forcibly in the last paragraph of the preface:

Is it not of the greatest importance to examine, with candour, the operations by which all Europe has been engaged in a system of policy [i.e. mercantilist policy] so generally declaimed against, and so contrary to that which we hear daily recommended as the best? To shew, from the plain principles of common sense, that our present situation is the unavoidable consequence of the spirit and manners of the present times; and that it is quite compatible with all the liberty, affluence, and prosperity, which any human society ever enjoyed in any age, or under any form of government? A people taught to expect from a statesman the execution of plans [i.e. plans in line with Hume's arguments], big with impossibility and contradiction, will remain discontented under the government of the best of Kings. (Steuart 1767: I xv)