【Notes and Communications】

More Ambitious than Might Be Expected: Matthew Smith's *Thomas Tooke and the Monetary Thought of Classical Economics*, London: Routledge, 2011, xx + 300 pp.[1)]

Yuji Sato

This is the long-awaited book by the author who has prolifically published articles on Tooke since publishing in 1996 the variorum edition of Tooke's *Considerations* (1826). This work, likely the second monograph on Tooke in the English-speaking area, has very ambitious aims and objectives: First, the author takes an unprecedented approach, in that he explicitly tries to incorporate Tooke's *theory of value and distribution* into the tradition of classical economics. Second, he endeavors to show that Tooke coherently combines the surplus approach to the theory of value and distribution with the "monetary theory of distribution"; in this context, he also emphasizes the significant relevance of Tooke's theory to the modern monetary economics.

This book consists of eight chapters, together with Appendices. Its content is as follows. Chapter 1 maintains that though he has been often considered a mere monetary economist, in fact Tooke had a more comprehensive "coherent theoretical framework"—namely, the surplus approach to the theory of value and distribution—and developed his monetary theory coherently through the use of that approach, the analytical objects of which were long-term normal prices and economic surplus. Chapter 2 sketches the life of Tooke and his contributions. Detailed and valuable information about his life will, among other things, be of great benefit to academia. Chapter 3 states that Tooke certainly used the concept of the long-term normal price as the cost of production, contrary to the claim of Arnon (1991, 70) to the effect that Tooke did not have *any theory of price*, but only gave descriptions of changes of prices. This chapter also insists that he coherently developed such a theory in the form of the "adding-up theory" of price, "from the very beginning" (p. 31) to the end. This theory, the author says, is the premise of Tooke's important thesis that the long-term average interest rate enters into the production cost. Chapter 4 meticulously follows Tooke's view that *the monetary factor itself gives only a minor influence over the prices of agricultural products, whereas these prices greatly*

[1)] We invited Dr. Smith to the International Ricardo Conference on *Money, Finance and Ricardo*, September 17–18, 2011, at Meiji University, Tokyo, held under the auspices of the Ricardo Society and sponsored by the JSPS Grant-in-Aid for Scientific Research (A): 22243019. This review is also supported by this grant.

depend on exogenous shocks such as seasons or the expectation of market participants. In addition, this chapter closely examines Tooke's criticism of Corn Laws, with the conclusion that Tooke's assertion that Corn Laws cannot protect British agriculture is "unconvincing" (p. 76). It is suggested that when accusing Corn Laws of having antisocial effects, Tooke probably envisaged their injurious effects on the working class rather than upon agriculture *per se*. Chapter 5 insists that Tooke derived the movement of the general price level from the natural and political conditions of production. From this viewpoint, the author maintains that early Tooke indeed supported the anti-bullionist position, and that he asserted that inflation was caused by *real* factors such as the balance of trade or the Continental System, etc. However, it is suggested that there exists some inconsistency in Tooke's analysis of the effect of the Bank of England's (BOE's) easy money policy and the influence of newly supplied gold from mines. Incidentally, the problem with Tooke's reception of the Say's Law is examined in this chapter. Chapter 6, meanwhile, examines the features of monetary thought of the pre-banking school Tooke (1819–38), mainly comparing them with Ricardo's alleged quantity theory. First, Tooke's position on the controversy surrounding the resumption of cash payments in 1819 is examined; second, the fact that Tooke supported the "reverse causation" running from prices to money *à la anti-bullionist* is confirmed; and third, the determination of the interest rate *independent of* the real factor (profit) in *Considerations* (1826) and its permanent influence over later monetary thought are highlighted. Chapter 7, which treats the monetary thought of the banking school Tooke (1840–57), discusses Tooke's deployment both of the "real bills doctrine" and the "law of reflux" associated with the "dual circulation" framework. In this chapter it is also suggested that Tooke's insistence that as there was no functional relationship between the interest rate and monetary spending, the BOE had little power to control the price level—and, moreover, that its interest rate policy would be almost ineffective—is "the most important" (p. 163) insight. It is said that the Bank Rate affected the economy inasmuch as it had an effect on securities prices—and hence short-term capital flows—and inasmuch as the interest rate would be incorporated into long-term normal prices. Chapter 8, entitled "Tooke's Legacy" —which is far more informative than the one-page contribution of Arnon (1991, 184) —emphasizes its relevance to the modern post-Keynesian economics. It is insisted that Tooke's "more important legacy" to the post-Keynesian economics compared to the conception of endogenous money "consists of his proposition that the rate of interest is an autonomous variable that can systematically govern the normal rate of profit" (p. 227), and that he was a pioneer of the monetary theory of distribution who said that a long-term interest rate decided by the longstanding interest rate policy of the monetary authorities had considerable influence on income distribution. Finally, though "Tooke was an avid collector of figures" (F. W. Fetter), he left them only as an enumeration of vast numbers in his writings, so the author deserves great praise for offering Appendices that arrange those numbers in the form of very clear graphs.

As this book is an extremely ambitious work, I cannot refrain from saying that I have some doubts about its assertions.

First, we all know that Ricardo's criticism of the "adding-up theory of price" was based on the inverse relationship between wage and profit, and also on the theory of differential rent. The author claims that Tooke systematically developed the adding-up theory *while simultaneously accepting the Ricardian theorem of the absence of rent at the margin* (pp. 32, 35–37, 70). How could an "adding-up" theorist advocate Ricardian rent theory? There seems to be some information missing here in the author's interpretation of classical price theory.

Second, the author suggests that Tooke developed a certain theory concerning the "cyclical behavior in the economy" (pp. 83–84). However, when it comes to his claim that Tooke's thought was in fact akin to that of the anti-bullionists, the author insists that Tooke considered the cause of price inflation to be not the monetary factor but "*exogenous real shocks*" such as seasons, wars, or balance of trade (pp. 138–45). If so, it was—as Arnon (1991) puts it—only a "waves" theory, rather than a theory of cyclical fluctuations.

Third, the author takes up some topics and tries to contrast the monetary thought of pre-banking school Tooke with the supposed Ricardo's "quantity theory," but it is difficult to agree with the author's interpretation of why Tooke refused Ricardo's ingot plan and adhered to a scheme involving the resumption of *specie* (*gold coin*) payment. Indeed, Tooke's claim resembles *Liberal Tories* considerably, and there is no denying that *his claim is likely to be in line with admitting deflation* contrary to the ingot plan. Furthermore, I cannot understand why the author seems to have *no* doubt about Tooke's case for the BOE's deflation policy of taking up a hasty and "spiteful" (B. Hilton) resumption (pp. 127–32)—although Tooke's attitude has long been questioned before, at least since T. E. Gregory and J. Viner. Generally, the author tends to dwarf Ricardo and set him up as a "straw man" who adhered to a stubborn quantity theory, seemingly only to highlight Tooke. However, for example—as Arnon (1991) points out—proposals for BOE reform in *Considerations* (1826) (pp. 154–55) are in fact very likely to have been influenced by Ricardo's *Plan for a National Bank* (1824).

Fourth, the author's arguments against Arnon's (1991) claim that Tooke got closer to free banking from 1844 onwards seem to be weak, because the author has only two pieces of evidence to rebut Arnon's claim: vol. 3 of *A History of Prices* (1840) and Tooke's *Evidence before Commons Committee* (1848) (pp. 186–88). A little more explanation is needed about why Tooke showed an interest not in establishing a new central bank—like Ricardo's national bank—but in improving the existing BOE. (Incidentally, one of Tooke's sons was a BOE director between 1843 and 1857.)

Fifth, the well-known incompatibility between the monetary theory of distribution (see Pivetti 1991) and the surplus approach to the theory of value and distribution does not seem to be resolved in this work. The surplus approach argues that the social surplus is determined *only if* the social output, the production technique, and the *real* wages are given. From this book's explanations, it does not yet seem to be clear whether the theoretical consistency of the surplus approach would be maintained, even if we were to put the rate of interest in place of *real* wages (or profit).

For Japanese researchers, this book is written in comparatively accessible English. The author's effort to both reconsider and rehabilitate classical monetary thought entitles him to great praise, and his claim that Tooke's monetary thought is highly relevant to the post-Keynesian monetary economics also deserves examination. This book must be heartily welcomed by Japanese researchers of the history of economic thought and the history of monetary thought.

Yuji Sato: Shonan Institute of Technology

References

Arnon, A. 1991. *Thomas Tooke: Pioneer of Monetary Theory*. Aldershot, U. K.: Edward Elgar.

Pivetti, M. 1991. *An Essay on Money and Distribution*. Basingstoke, U. K.: Macmillan.