

James Steuart's Theory on Banks : Development of Trade and Bank Credit

Yutaka Furuya

Much ink has been spent over the last few decades on James Steuart's theory on banks. Critics are united in the view that his 'banks upon mortgage' is an idea of central importance in Steuart's theory on banks. They propose that insofar as Steuart argued against bank lending upon mercantile credit because it is precarious, his concept of bank credit upon mortgage must be regarded as a representative pillar of his theory. This understanding has also supported the claim that Steuart's theory on banks is outmoded in the sense that it gives little or no allowance for banks providing mercantile credit.

If we consider Steuart's theory on banks within his whole chain of arguments, that interpretation is open to question. Steuart's principles of political economy, including his theory on banks, are built within a historical

structure. He denies bank credit based on mercantile credit, only when the society is in the infancy of trade. In his theory on banks, he posited three classifications : 'banks upon private credit' (i.e. upon mortgage), 'banks upon mercantile credit,' and 'banks upon public credit,' each with a different role in the development of the economy.

Considered in this perspective, the significance of Steuart's theory on banks lies in that the principles on which bank credit is based extend according to the development of trade and industry and to the policy of statesmen. His theory of banks must be regarded as a part of his arguments on providing money in proportion to the circulation.

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