Adam Smith and Some Significant Predecessors

1) Adam Smith (1723-90)

a) HEA 181 last # 'Few facts and no details... to end of second # page 182... with the power to write them.'

b) HEA 185 'But though the Wealth...up to Readers' Guide p. 186.

c) HEA 193 Reeditions of the Wealth in England up to 1800 and translations into continental languages.

Sir William Petty (1623-87)

a) HEA 210n2: First four lines.

b) HEA 210: 'The decisive impulse... to 211 ... number, weight, and measure.'

c) HEA 213 "To return to Petty... to HEA 214 line 2: ... later theorists.'

d) HEA 214 line 7 'What does amount to something... ... proved to be a blind alley.'

Richard Cantillon (1680?)-1734

a) HEA 217n4: He was a Paris banker of Irish extraction who wrote Essai sur la nature du commerce en general

b) HEA 218 lines 4 - 29: 'What Petty failed to accomplish... ...foreshadowed in Cantillon's work.'

c) Pp. 218 - 223: Sketch of Cantillon's Essai. a Reader's Guide.

Francois Quesnay (1694-1774)

a) HEA 224: François Quesnay... upright and honest.

b) HEA 232-239 : Quesnay's Economic Analysis

233 Principle of maximum: greatest satisfaction (jouissance) with least expense (or labor-pain)

Maximum doctrine of perfect competition: The maximum satisfaction of wants for all members of society, taken together, will result if, conditions of perfect competition prevailing, everyone be allowed to act freely upon his own individual self-interest. Hence free trade, and so rejection of mercantilism.

This commonly taught in nineteenth century; first to express doubts was Marshall.

235 Everyone should spend promptly his net receipts upon consumers' goods: otherwise money withdrawn from circulation.

Capital theory: derived from expenses of farmer

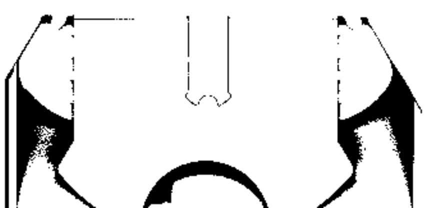
236 Avances foncieres: non recurrent: draining fencing building
Avances primitives: equipment, cattle, horses
Avances annuelles: on seed, labor, etc.

238 Produit net: it means that rent contains a net return

239 The tableau economique

3 classes: landowners, farmers, artisans

Suppose that the money in circulation is 1000 units which the landowners receive over the year in rents, and spend in next year 500 units on farm products and 500 on manufactures.



The 500 units the farmers receive becomes 1000 from sale of the net return of the farm produce. Half of this goes to the owners as rent(not to be spent until the year (t + 1); one quarter is 'consumed' withint the agrarian sector; and the remaining quarter goes to the artisans for needed equipment. Of the 500 units the artisans received from the owners, 250 units go to the artisans and their workmen's consumption; the other 250 purchase food and raw materials from farmers.

The whole of the tableau, apart from the pictorial form, is a fuller development of Cantillon.

241 The tableau as a method
It effects a massive simplification of the myriad exchanges that occur each year in an exchange economy. The exchanges occur between classes of individuals: we can think of purchases of households from firms, and of salaries and wages from firms to households; and instead of landowners, we can think of the bankers from whom all money comes and to whom all money goes.

Further, besides simplifying, it opens the way to quantification. Quesnay went beyond Cantillon in this matter. He did econometric work.

Finally, the tableau gives an explicit expression to the notion of economic equilibrium. There had been a growing awareness among ecoomists that there was a pervading interdependence of all economic phenomena; but the tableau was the first attempt to express how it worked. Cf. p. 242.

Anne Robert Jacques Turgot (1727-81)

a) HEA 243 Commonly classed as a physiocrat on the basis of explicit statements in his Réflexions sur la formation et la distribution des richesses. Schumpeter notes that such statements do not belong to the argument, and considers two explanations of their presence in the text, to extricate Turgot from the class of pysiocrats.

HEA 244 S. associates Turgot with Gournay. Cf note.

HEA 245 Gournay translated Child's New Discourse as well asHume and Josiah Tucker

Ibid. Life Sketch: "Turgot's brilliant achievements... to ...for the rest of his active life."

HEA 322 In Roman jurists 'capital' meant the principle of a loan on which interest was paid.

HEA 323 Turgot seized upon Quesnay's avances as richesse mobiliere amassée d'avance as préalable indispensable for all production. Wealth other than natural agents was an indispensable precondition for all production.
So capital as a loan becomes a loan for productive purposes and so is just a short step to investment. The short step is from money to invest to what the money buys: capital as the precondition of productive process.

Turgot (con'd)

HEA 324: "And so was the Turgot-Smith theory of saving and investment... ...but not Quesnay, nor Cantillon, nor Boisguillebert."

Hea 324n2: 'For Turgot also says that, at least in the case of entrepreneurs, savings are converted into capital sur-le-champ.'
Against a previous suggestion that Smith wrote 'immediately' without a precursor.

HEA 325: Nobody saw, or at least bothered about, the modus operandi of savings and capital formation per se. Turgot then must be held responsible for the first serious analysis of these matters.

Ibid. One economist after another failed to look askance at that word 'immediately.'

HEA 326: But in effect... (savings)... become a destroyer instead of a creator of industrial process.

HEA 329: Barbon: Interest as the Rent of Stock.

After Adam Smith

HEA 276: Smith, following Barbon, conceived stock as the source of productive labor; that labor is the source of profit; finance that provides the pay for the labor receives interest, which is just a veil, a shadow, on the real process. Hence economists turned their attention to the real process, and did real analysis. From after Smith to earlier decades of 20th century.

HEA 279n5: Joan Robinson [Review of Economic Studies, October 1933] argued that the theory of money was identical with the theory of social aggregates and ultimately of total output in terms of the monetary value of consumption and investment.
NB Schumpeter insists algebraic sum is inexact statement of aggregate.

HEA 283: Interlude of monetary analysis 1600-1760.

HEA 280: Influence of popular views on spending and saving.

HEA 698 f: Total of all we pay with: full-value and token coins, bank notes, deposits subject to check or the checks themselves, and under certain conditions bills of exchange.
This comprehensive notion was not identified with money.

HEA 700: In the opinion of Ricardo and Overstone, bank notes were not credit means of payment but de facto money though they should not be.

HEA 701: The leading classics conceived the value of money: in the long run as the cost of producing or obtaining the precious metals; in the short run as determined by supply and demand.

HEA 706: Thornton outdistanced all others, so far as width of comprehension and analytic power are concerned [in evidence before the two commissions of secrecy (1797) and the two speeches on the BUllion Report (1811).]

HEA 717: Way of discovery: monetary theory of credit, just as barter theory of money.

Way of synthesis: credit theory of money; today coins and bank notes are the small change in transactions; the great volume of exchanges occur through checks drawn on banks, and banks sending to the clearing house the checks they receive that are drawn on other banks.

HEA 718: The English leaders from Thornton to Mill discovered elements in the analysis of credit, but could not break loose from the monetary theory of credit of their predecessors, and so were unable to do justice to their discoveries.

718 f. There is no essential difference between legal tender and credit instruments: to add to either has the same effect on prices. Means of payment increase with no corresponding increase in goods or services.

There are practical differences however: the law considers legal tender valid for payment of all public and private debts; credit is just a claim to legal tender.

720 If the quantity of credit is compensated by savings, it will not have an inflationary effect; for in that case it is not adding to the quanity of money actually in use.

723f Savings may be voluntary: not spending all one's income; or involuntary, having one's income reduced in purchasing power by inflation.

722 If the rate of inteest charged for credit is less than the expected marginal rate of profit, demand for credit enters the Wicksellian Cumulative Process: it goes on until banks are at the limit of their reserves; then they recall loans; the bubble bursts and depression follows. Cf. HEA 1120.

Hence the equilibrium rate of interest for loans is the rate that matches the expected marginal rate of profit.