

Richard Cantillon's Early Monetary Views?

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1. Introduction

In April 1759, soon after the publication of Philip Cantillon's book *The Analysis of Trade*, a review appeared in the *Monthly Review*. The reviewer, one William Kenrick, was unimpressed with the literary merits of the work. He perceived a 'puerility of method and poverty of language' evinced by many 'unnecessary and self-evident propositions' (Kenrick, 1759: 309, 310). In addition he accused Cantillon of a lack of originality. The author, the reviewer argued, had in fact reproduced a number of theories that could be found in the *Political Discourses* of 'that masterly writer' David Hume, whom Cantillon frequently quoted 'in justification of his own sentiments; but does not appear always to comprehend' (*ibid.* 309). While Kenrick's criticism was rather too severe,¹ in a number of places in the *Analysis* verbatim quotations and paraphrases of passages from Hume's *Discourses* did indeed occur. Thus, this reviewer's suspicion that the novel monetary ideas in Cantillon's book were in fact borrowed from Hume, was not unreasonable.

Of course we know that this was not the whole story. In addition to adopting some of Hume's ideas, Philip Cantillon (17??-1772) was in fact also, and to a much greater extent, indebted to the writings of his cousin, the banker Richard Cantillon (1687?-1734), who had been murdered a quarter of a century earlier.² The latter's great work, the *Essai sur la nature de Commerce en général* had belatedly been published in France, four years before the appearance of the *Analysis*. Kenrick can be excused for not having been aware of this, because by the late 1750s extremely few people in Britain appear to have known the French *Essai*.³ Modern commentators, following Jevons (1881) have often assumed that Philip Cantillon must have been one of the very few Englishmen at the time who were familiar with that French publication. Indeed, the *Analysis* has generally been thought to be a partial and poor translation of the *Essai* of 1755.

In this paper it is argued that this assumption is incorrect. There is no convincing evidence that Philip Cantillon was even aware of the existence of the French publication. On the title page of the *Analysis* he asserted that his work was '[t]aken chiefly from a Manuscript of a very ingenious Gentleman deceas'd, and adapted to the present Situation of our Trade and Commerce'. It will be shown that this statement, despite having been dismissed by later commentators, is likely to be true.

¹ Fieser (1994) shows that Kenrick fervently championed Hume on other occasions, accusing other authors too of plagiarising the Scotsman.

² Antoin Murphy, by far the most reliable biographer of Richard Cantillon, establishes that he was born sometime between 1680 and 1690 (Murphy, 1986: 10). The more precise dating of his birth to 1687 is based on Murphy's conjecture that the Irishman was naturalized a Frenchman in 1708 upon turning 21 (Murphy, 2011: 2-3). Murphy (1986: 287) identifies Philip as his cousin.

³ This statement is based on two kinds of evidence. First, there are scarcely any traces of copies of the *Essai* in private libraries in Britain in the third quarter of the 18th century. A rare, but of course significant, exception was the presence of a copy in Adam Smith's library. Smith had been in France in the period that the *Essai* was en vogue in Paris and probably picked up his copy there. Second, no British author of the same period quotes or discusses the *Essai*, apart again from Smith's one reference to 'Cantillon' in the *Wealth of Nations*, which was the Cantillon of the *Essai*. Some references to the *Essai* did appear in works that were translated from French to English. See Vivant de Mezaque (1766), Mably (1758, 1766, 1784). Ironically, these French authors assumed the *Essai* to be well-known in Britain and America, believing it had originally been written in English, by an 'English merchant'. In his letters to John Adams, after commenting at some length on Cantillon's views about the rise and decline in the prosperity of nations, Mably stopped himself: 'I will add no more, Sir, as I think Cantillon's work must already have crossed the Atlantic' (Mably, 1784: 90). The *philosophe* may have thought wrong.

One reason why the different source of Philip's borrowing is important, is that the monetary ideas found in the *Analysis* show marked differences from the ones found in the *Essai*. Not only are they frequently less sophisticated when compared to those in the French text, they are also in a number of respects closer to the monetary views of David Hume. There are two ways to explain this curious fact. On the one hand it may be argued that Philip Cantillon, in an ill-conceived attempt to make the argument of his book more conform to the notions expressed in Hume's successful *Discourses*, must have severely cut and simplified the manuscript text at his disposal. Alternatively, that manuscript may have contained the early, more rudimentary monetary ideas of the murdered economist. Since no actual manuscript text has been found it is not possible to decide with absolute certainty which of the two explanations is the right one. But if the second explanation is likely to be correct, as will be argued in this paper, it would make the *Analysis* a far more important text than has previously been recognised.

In discussing the two possibilities this paper addresses two questions. First, what can reasonably be inferred from the differences between the *Analysis* and the *Essai* about the evolution of Richard Cantillon's monetary ideas? Second, what are the implications of a re-examination of the content of the *Analysis* for the longstanding issue of the historical and analytical connections between the economic writings of Richard Cantillon and David Hume? The paper will proceed in the following way. To provide a context to what is to follow, section 2 gives a brief historical overview of the perceived relations between the economic writings of Cantillon and Hume. In section 3, evidence is presented to support the claim that the *Analysis* was based on a different, earlier manuscript version of the *Essay*. In section 4, the 'early' monetary ideas of Cantillon are compared both to his 'mature' ideas and to Hume's views. Section 5 is a conclusion.

2. Cantillon and Hume: a long association

The first thing to note about the link that has frequently been made between the economic writings of Hume and Cantillon is that it is not merely a retrospective association made by later generations of historians of economic thought. Commentators both in Britain and France made the connection practically as soon as the writings of the two men appeared in print. The story is somewhat divergent in the two countries due to the different early publication history of the works of Hume and Cantillon. Hume's *Political Discourses* were a publishing success almost immediately on both sides of the Channel. A first French translation appeared in 1752, followed by two other translations, which became widely read and commented upon.⁴ Due to this there was never any serious issue in either country of who had access to what version of Hume's economic writings. With Cantillon the situation was quite different. While, as already noted, in Britain the French *Essai* was hardly known, in France the *Analysis of Trade* seems to have gone completely unnoticed.⁵ But this did not prevent commentators in either country from perceiving a link between the writings of 'Cantillon' and Hume. In Britain, not only did Kendrick perceive a relation between the views of Hume and Cantillon of the *Analysis*, the same point was made in another piece in Smollett's *Critical Review*.⁶ However, unlike Hume's *Discourses*, the *Analysis* had little impact on

⁴ See Rochedieu (1948: 161-2). The first translation is ascribed to Mme. De la Chaux (editions published in 1752, 1766 and 1767), the second was by the *abbé* Jean-Bernard Le Blanc (editions in 1754 and 1755) and the third by Eléazar Mauvillon (editions in 1754 and 1761). Cf. n. 8 below.

⁵ There does not appear to be a single reference to the *Analysis* in the French economic literature of the third quarter of the 18th century. Neither does it seem that any Frenchmen who wrote on economic subjects owned copies of the work. It does not feature in the *Catalogue d'une Bibliothèque d'Économie Politique* of the anglophile economist *abbé* Morellet or the records of the libraries of Turgot, Abeille, Forbonnais, Plumard de Dangeul, or Grasin (all authors who knew or knew of the *Essai*). Neither was it, as far as can be established, in the libraries of Silhouette or Butel-Dumont. I thank Arnaud Orain, of Université Paris 8, for providing me with information about the libraries of the last six men (private correspondence 19 October 2011).

⁶ See *The Critical Review* for the Month of March 1759, pp. 241-9.

subsequent British authors, with the notable exception of Sir James Steuart who in his *An Inquiry into the Principles of Political Economy* of 1767 named the work twice.⁷

In France, during the second half of the 1750s, when partly due to the activities of Gournay and his circle, economic theory and policy aroused much public interest, the Cantillon of the *Essai* had a greater impact than the British incarnation. One of its first reviewers, Fréron, hailed the book as ‘one of the best that have been written on the subject of trade’ and noted similarities with Hume’s ideas (Fréron 1755: 68, 72). In *L’ami des hommes* (1756: 85), a work that also quoted Hume in several places, the marquis de Mirabeau agreed, calling Cantillon ‘the most able man’ to have written on the theory of commerce. Similarly, Mably (1757), soon to be a critic of the physiocrats, styled the *Essai* ‘the best work that has been written on the subject’. As a result of such endorsements the *Journal de Commerce* soon referred to the author as ‘le célèbre Cantillon’ and mentioned the *Essays* of Hume and Cantillon in the same breath as ‘les plus profonds Ouvrages des Anglois sur le Commerce’ (Jan. 1760: 69; Jan. 1759: 44-5). Significantly, in 1756 Cantillon’s book was actually reprinted as part of an edition of Hume’s writings, thereby suggesting that the economic writings of the two men were complementary.⁸ After two decades or so the fame of Cantillon in France gradually faded and certainly after the Revolution the *Essai* suffered the same fate that had much sooner met the *Analysis* in Britain: it was largely forgotten.

It is a remarkable fact that, due to the separate reception history of the Cantillons in France and Britain, for over a century nobody appears to have noticed any possible connection between the *Essai* and the *Analysis*. McCulloch, for instance, in his influential *Literature of Political Economy* only included a reference to the *Analysis*. Echoing Kendrick’s review, he noted that ‘the author adopts several of the views of Hume, whose *Political Essays* were published in 1752’ (McCulloch 1845:52). Perhaps it was Karl Marx who was the first to puzzle about the relation between the two books, when he applied himself to the study of Cantillon’s ideas in 1863.⁹ Presumably unaware that the *Essai* had not been written by Philip Cantillon, he concluded that the *Analysis* ‘proves by its contents that it is a later and revised edition: e.g., in the French edition [*i.e.* the *Essai*], Hume is not yet mentioned, whilst in the English, on the other hand Petty hardly figures any longer’ (Marx [1887] 1977 I, 520, n.2). By observing that ‘the English edition is theoretically less important’ (*ibid.*), Marx implied that the ideas found in that work were more rudimentary, without offering an explanation why that would be the case if it was a later edition.¹⁰

In his famous article on Cantillon, William Stanley Jevons (1881) provided such an explanation. Having discovered that Philip and Richard had been different individuals, he concluded that the former had simply produced a ‘horribly garbled’ translation of the latter’s French masterpiece (Jevons, [1881] 1931: 335). It is a view that has not been seriously questioned until the present day. Importantly, Jevons’ rediscovery of the *Essai* also involved a reassessment of the relation between the economic writings of Cantillon and Hume. He was scathing about McCulloch’s suggestion that Hume would have influenced Cantillon (*ibid.* 333-4). Not only was this impossible due to the Irishman’s early death, also when the content of the *Essai* was compared to Hume’s *Political Discourses*, it was evident who the superior

⁷ Judging by its frequent presence in libraries that were catalogued in the second half of the 18th century, the *Analysis* had sold quite well. More notable authors who owned a copy were Malachy Postlethwayt (1768, item 7065) and the ‘Scottish physiocrat’ John Gray (see van den Berg, 2010).

⁸ The *Essai* was included in book III (pp. 151-434) of a collection of *Discours Politiques* by Eléazar Mauvillon. Hume’s *Discourses* had appeared as book I in 1754. Book III was published in 1756, ‘à Amsterdam, chez J. Schreuder et Pierre Mortier le jeune’. In 1762 (March, p. 105) the *Journal de Commerce* recommended that ‘the young merchant will perfect his understanding of the theory [of trade] by a reading of Mr. Hume’s discourses on trade and the Essay on the nature of Trade in general of Mr. Cantillon’.

⁹ Having already referred to Cantillon in notes dating from 1843-5, Marx made a deeper study of Cantillon in 1863, probably in June. 70 pages of excerpts from the Mauvillon edition of the *Essai* are part of one of the last notebooks of Marx’s Manuscript 1861-63. In the somewhat later *Beihette*, on the last pages of notebook G, he compared the English (1759) and French (1756) versions of the works ascribed to Cantillon. This comparison formed the basis for his judgment in *Capital* cited above. I thank Regina Roth at the Marx-Engels-Gesamtausgabe (Berlin-Brandenburgische Akademie der Wissenschaften) for supplying me with this information (private correspondence 19 July 2011).

¹⁰ He implicitly rejected the possibility that the English version could have been based on a different source, discounting the statement on the title page that the book was based on a manuscript as ‘a pure fiction, very customary at that time’ (*ibid.*).

economic theorist was. To express his reassessment of the relative merit of the two 18th century founders of the discipline of political economy, Jevons took the sobriquet 'cradle of political economy', which Hume's biographer Burton had earlier used to describe the *Political Discourses*, and bestowed it instead upon Cantillon's *Essai* (*ibid.* 333, 359).

After this 'cradle snatching' move, it was also logical to reverse the direction of the question of a possible influence of one man on the other: if Richard Cantillon could not have known Hume's writings, might the Scottish philosopher have been influenced by the Irish banker? Credibility was given to this possibility by Friedrich Hayek ([1931] 1985: 28; cf. 1935: 9) who argued, that 'from a comparison of Hume's monetary theory with that of Cantillon one gets the inescapable impression that Hume must in fact have known Cantillon'. A similar opinion has since been expressed by a number of commentators.

Since by the late 1740s, when Hume started to write his economic discourses, the *Essai* had not yet been published, it is not a trivial question how he could have familiarised himself with Cantillon's work. Two explanations have been proposed. On the one hand, Hume may have been able to lay his hands on a manuscript version of the *Essai*. Thornton (2007), who provides the most recent and lengthy discussion of this possible route of influence, is unable to turn up conclusive evidence.¹¹ Still, this does not preclude the possibility that Hume did in fact get acquainted with Cantillon's work through his reading of a manuscript. What can safely be discounted, though, is the other route that has been suggested (see e.g. Hayek, [1931] 1985: 28; Fanfani, [1952] 1997: xiii; Brewer, 1992: 186; Wennerlind, 2005: 227 n.3), namely that Hume would have learned of Cantillon's ideas through the earlier, partial publication of the Irishman's writings in a number of works by Malachy Postlethwayt. Even though it is true that a long excerpt of Cantillon's writings appears as early as 1749 in Postlethwayt's *Dissertation*, it is not a fragment in which ideas occur that remind of Hume's *Political Discourses*.¹² With regards to the many fragments Postlethwayt plagiarised from Cantillon in his *Universal Dictionary of Trade and Commerce* (1751-5), all but one were in fact published after the *Political Discourses* appeared.¹³ It is therefore simply not possible that any of Postlethwayt's publications could have been the source for Hume's knowledge of Cantillon's ideas.

Despite the fact that no incontrovertible external evidence has been found for a direct influence of Cantillon on Hume, it is nevertheless undeniable that a number of intriguing parallels exist between the

¹¹ Thornton's case is a further investigation of two points made by Hayek [1931] 1985: 28. First, he argues that it is reasonable to assume Hume would have had access to a manuscript version of the *Essai* during his time in France, partly because, presumably, copies of the Irishman's work had quite a wide circulation there (something posited by others too, see e.g. Schumpeter (1954), Brian and Théré (1997), but without hard evidence) and partly because Hume knew people who had also known Cantillon. Second, it is argued that some of Hume's surviving notes suggest that he made extracts from Cantillon. There may, however, be an over-interpretation of the evidence here. One note is about infanticide in China. Cantillon does write about this as well, but states his source to be 'the *Relations*'. This is very probably Eusèbe Renaudot's *Anciennes Relations des Indes et de la Chine [Aḥbār al-Šīn wa-l-Hind] de deux voyageurs mahométans [Sulaimān et Abū Zaid Ḥasan ibn Yazīd], qui y allèrent dans le neuvième siècle; traduites d'arabe: avec des Remarques sur les principaux endroits de ces relations* (1718). There is no reason why Hume could not have had access to this original, quite well known, source, rather than have learned about it indirectly through Cantillon. In another note Hume observes that steel may increase 10,000 fold in value when it is worked up by labour. Thornton, following Hayek, argues that this is suspiciously similar to Cantillon's observation that the ratio of the value of steel to labour in a watch is 1 to 1 million. The problem with this argument is that it is not Cantillon's proportion but one invented by Postlethwayt, put in his *Universal Dictionary*, and subsequently adopted by Higgs in his English translation of the *Essai*. See van den Berg 2011 n. 17. As explained in note 13 below, it is not credible to argue that Hume would have read the Postlethwayt version.

¹² This long fragment corresponds to parts of the first three chapters of *Essai* part III. It deals primarily with the exchange of currencies.

¹³ The publication dates 1751-1755 are somewhat confusing because they have been taken to mean that the first volume of the *Universal Dictionary* appeared in 1751 and the second in 1755. In fact, however, the first volume was only complete by the autumn of 1753. Prior to that, publication of roughly weekly issues had commenced from 1 November 1751. The earliest entry that contained some very limited fragments of Cantillon's writings was 'Arbitration in matters of Foreign Exchange'. It was contained in issue 8, distributed around the beginning of January 1752 (this date can be deduced from a Bill of Complaint against Postlethwayt from 1757 [National Archives C12/2353/64]). Only that entry can be said to predate the publication of Hume's *Political Discourses* in England in the first week of March 1752. However, Hume's work had already been printed in Scotland by the end of 1751 and the *Monthly Review* for January already carried 'an Account of these Discourses, with a large Abstract of them' (*London Daily Advertiser*, 12 Feb. 1752).

writings on monetary issues of the two men. Three topics in particular have attracted attention: the effects of increases in the money supply on prices and production, the price-specie-flow mechanism and the determination of the rate of interest.¹⁴ With respect to each of these topics the Cantillon of the *Essai* offered an analysis that is more refined than what Hume put forward in his *Political Discourses*. Murphy (1985: 203-4) notes: '[...] even if Hume did read Cantillon's *Essai* in manuscript form prior to writing the *Political Discourses* he obviously did not read the *Essai* in depth. If he had, his monetary theory would have been far more sophisticated than that advanced in the *Political Discourses*'. It is an opinion shared by commentators as far apart as Frederick Engels ([1877] 1947: 289) and Murray Rothbard (1995: 426-7).

This is an interesting point in connection with the reassessment of the content of the *Analysis* offered in the next two sections. We will see that the monetary views found in Philip Cantillon's work are in some cases closer to Hume than the views in the *Essai*. My explanation for the differences between the 1759 and 1755 publications is that most of the monetary views found in the *Analysis* were adopted from an early draft of Richard Cantillon's work. The more developed theories found in the *Essai*, though published somewhat earlier, appear to derive from a later manuscript. It is a separate question whether the fact that some of Cantillon's early monetary ideas are closer to Hume's positions also means that the latter would have been familiar with an earlier version of the former's writings. This is a less important issue about which some further remarks will be made about this in the final section of this paper. First, however, it is necessary to present evidence for the main contention that the more rudimentary monetary ideas found in the *Analysis* were not simply a poor rendering by Philip Cantillon of his illustrious cousin's more sophisticated reasoning.

3. The fragments on monetary theory in the *Analysis*

The Analysis of Trade has always had a bad press. As was noted in the previous section, the 'puerility of method and poverty of language', noted by its earliest reviewer, was explained by Jevons by means of his supposition that the work was in fact a 'horribly garbled translation' of the French *Essai* of 1755. Subsequent commentators have taken the same view calling the *Analysis* a 'very mediocre work' (Hayek [1931] 1985: 218), which 'mutilates the *Essai* badly' (Higgs, 1931: 378), or describing it as a 'bowdlerised inferior version' of that French work (Murphy, 1985: 203). To some extent these judgments are understandable given the fact that the economic theories presented in Philip Cantillon's work are indeed in a number of respects inferior to those found in the *Essai sur la nature de Commerce en général*.

Nevertheless, I have argued in a recent paper (van den Berg, 2011) that earlier assessments of the *Analysis* have been too hasty. It is in fact a much more interesting and significant text than it has been given credit for. This opinion is based on a paragraph-by-paragraph comparison between not only the *Analysis* and the *Essai*, but also a third published version of the writings of Richard Cantillon, namely the numerous fragments that occur in Malachy Postlethwayt's *Universal Dictionary*, first published in instalments between 1751 and 1755.

Since the present paper is concerned with the monetary theory that can be found in the *Analysis*, the focus is here on the chapters XII to XVII, pages 25-68, of that work. When the structure and content of these chapters are compared to the corresponding parts of the *Essai* and of the *Dictionary* one can draw some remarkable conclusions. If one first only compares chapters XII to XVII of Philip Cantillon's

¹⁴ Hayek, for instance, discusses each of these topics. Hayek (1935: 8-9) concentrates on the similarities between the two men's views about the quantity theory of money, while Hayek (1931) focuses on the price-specie flow theory and similarities in their views about the determination of the rate of interest.

work with the *Essai*, and notes which precise passages the two text have in common, then one finds relatively little similarity.¹⁵ An impression of this is given in Figure 1.

The two horizontal bands in the figure represent the text of the *Analysis* (top) and the *Essai* (bottom). The borders dividing up the bands indicate the different chapters (chapter numbers are given above and below the bands respectively). As noted, the comparison is at a paragraph-by-paragraph level (the numbers inside the lower band refer to paragraphs in the *Essai*; the numbers in the upper band refer to page numbers in the *Analysis*). It can be seen that, with the exception of paragraphs 1, 2, 4 and 6 of part I, chapter xvii of the *Essai*, all counterparts for this part of the *Analysis* are found in part II of the French work.¹⁶ The correspondence with part II of the *Essai* is not at all extensive. There are in fact only 8 paragraphs (indicated in the figure with a darker shading), out of a total of 159 paragraphs in part II of the *Essai*, that have counterparts in Philip Cantillon's text.¹⁷ The content of several chapters of the French work (part II, chapters i, iv, v, vii, and viii) is completely missing from the *Analysis*.

Conversely, the larger part of the content of the chapters XII to XVII of the *Analysis* is missing from the *Essai*, and therefore on the basis of a comparison with that French text alone, cannot be positively identified as having been written by Richard Cantillon. These doubtful parts have been indicated in figure 1 by means of dotted areas. While one frequently gets the impression that the arguments in these passages "sound like" Richard Cantillon, since no direct correspondence with the *Essai* is found, for all we know Philip Cantillon here 'mutilated' his cousin's writings beyond easy recognition.

This impression is radically transformed, however, if one extends the comparison to fragments found in Malachy Postlethwayt's *Universal Dictionary of Trade and Commerce* (1751-5). This work has long been known to contain extensive plagiarised fragments of Cantillon's writings (see especially Higgs, 1931: 384). However, one crucial thing has gone unnoticed: the Postlethwayt version deviates in many places from the French text, universally recognised as the authoritative version.¹⁸ A close comparison reveals that throughout the Postlethwayt text, but especially in the part under consideration (corresponding to chapters XII to XVII of the *Analysis*; and to part II of the *Essai*) there are passages where only the two English versions agree. The extent of the correspondence is shown in Figure 2.

¹⁵ A comparison between the full texts of the *Essai* and the *Analysis* and the relevant parts of the *Dictionary* is presented in van den Berg (2011). It should be noted that compared to the very limited correspondences between Philip Cantillon's text and part II of the French publication, correspondences with parts I and III are much more extensive. This *may* indicate that Richard Cantillon's monetary theories, developed in the *Essai* in part II, underwent a greater evolution and developed later than many of his other ideas.

¹⁶ Those paragraphs of the final chapter of part I of the *Essai* correspond to *Analysis* p. 25 to 27. On page 28, where chapter XII continues without anything more than a paragraph break, the *Analysis* picks up the argument of *Essai* II, ii, 2.

¹⁷ This conclusion largely agrees with the only other detailed comparison between the contents of the *Essai* and the *Analysis* made by Groenewegen (2001: 185-8). Where Groenewegen differs is that he sees a correspondence between *Analysis*, pp. 28-30, and *Essai* II, i (rather than II, ii) and he sees an additional correspondence between *Essai* II, viii, 5 and an expression in *Analysis* p. 126. I agree with the latter.

¹⁸ For a fuller discussion see van den Berg (2011).

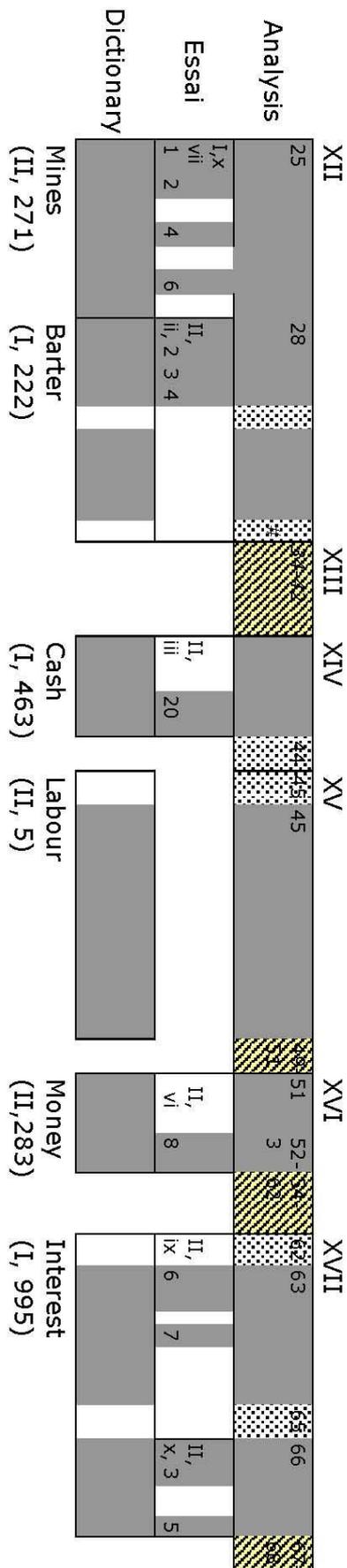


Figure 2

The figure shows that when parts of the content of entries in Postlethwayt's *Dictionary* (the names of the entries are given below the added band) are compared to the *Analysis*, many more passages in the latter text turn out to have counterparts. The more extensive darker shaded areas in the top band of Figure 2, as compared to figure 1, indicate this. This surprising finding has two implications. First, there are simply too many divergences between the two English versions on the one hand and the *Essai* on the other for it to be plausible that the French publication of 1755 was the source for Philip Cantillon's work (as has often been assumed). Second, the findings portrayed in Figure 2 severely limit the extent to which Philip Cantillon may have 'mutilated' the text that he did use: due to the correspondences with a publication that was published several years earlier, it is not possible that Philip essentially concocted the monetary ideas found in those particular passages. Admittedly, he may well have exercised an influence on precise formulations.¹⁹ For this reason we cannot be sure that the text of the *Analysis* gives us the monetary views of Richard Cantillon in the *exact words* used in the manuscript that passed into the hands of his cousin. Nevertheless the somewhat lesser claim that these passages (not found in the *Essai*, but present in the *Dictionary*) were adopted from a pre-existing source appears pretty safe.

At the same time, it is unlikely that this source was Postlethwayt's *Universal Dictionary*. There are a number of reasons to reject this possibility, but the three most important are: a) it would have been exceedingly difficult for Philip to identify the relevant fragments in Postlethwayt's massive work; b) the monetary views in the Postlethwayt text are often more sophisticated or formulated differently; c) the Postlethwayt text exhibits many further correspondences with part II of the *Essai* that are not found in the *Analysis*; To illustrate the last point, Figure 3 shows the full correspondences between the parts under consideration of the three texts.²⁰

The large gaps that appear in the top band of Figure 3 illustrate the considerable extent to which content that is present in the *Essai* (middle band) and/or the *Dictionary* (lower band) is absent from the *Analysis*.

To return to Figure 2, the exercise of comparing the texts also allows one to pinpoint more reliably which parts of the *Analysis* chapters under consideration are likely to have been additions by Philip Cantillon. Two kinds of markings have been used in Figure 2 to distinguish the remaining parts for which counterparts are found in neither the *Essai* nor the *Dictionary*. The relatively few short passages that are represented by light dotted areas are more likely to derive from a manuscript of the murdered economist. The reason for thinking this is that the content of these passages generally fits seamlessly with the preceding and/or subsequent argument and there is nothing that suggests a dating after the early 1730s.

¹⁹ Especially if it is true that the parts of the text that derive from Richard Cantillon are a translation from a manuscript that was written in French. On this point see van den Berg (2011)

²⁰ This figure is cut in half simply to make it fit on a single page. It corresponds to the middle part of figure 1 in van den Berg (2011) with this difference that the middle and bottom bands are swapped around. Note that since in this figure the *Essai* is used as the base text, the order of presentation of the *Analysis* text is somewhat changed: chapter XV is placed after chapter XVI (for this reason this part is marked with horizontal lines). The content of this chapter is discussed in section 4.2.

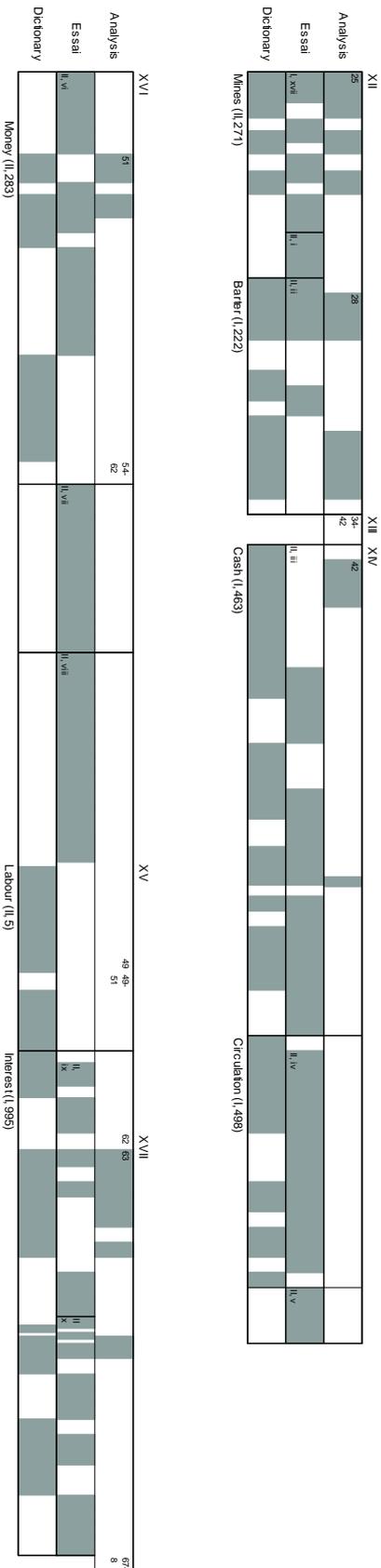


Figure 3

On the other hand, the areas in yellow denote parts where Philip supplemented the content of that text with writing of his own and that of other authors. The author that he used most extensively is David Hume. There are three places in the *Analysis* where the name of the famous Scotsman is used: on pages 34, 49 and 186. The last mention of '[t]hat profound and ingenious Reasoner, on the Subject of Money, Trade, and Commerce *Dauid* [sic] *Hume*, Esq.' (Cantillon, 1759: 186), precedes a long verbatim quotation from the essay 'Of Money' (pp. 186-193).²¹ While this quote is extensive, its use is arguably less interesting than the three other places where Philip Cantillon relies on Hume. The first instance of this is in chapter XIII, with the heading *Of Money and its Value* (pp. 34-42). While Hume's name occurs only at the beginning, Philip Cantillon in fact makes surreptitious use of 'Of Money' throughout that chapter and intermixes it with views that appear to derive from Richard Cantillon. The second mention of Hume, on page 49, is followed by paraphrased passages, on pp. 49-50, from his essay 'Of Public Credit'. Finally, there are several passages again reminiscent of 'Of Money' at pages 54-5, even though Hume's name is not mentioned. Again the argument seems to be combined with Richard Cantillon's views. The content of these three fragments will be examined in more detail in Section 4 below.

4. Richard Cantillon's Early Monetary Views?

The comparison presented in the previous section suggests that the middle part of the *Analysis* (chapters XII to XVII) was, to an important extent, based on a manuscript that was less developed than the manuscripts that were the source for respectively, the *Essai* of 1755 and the several entries in Postlethwayt's *Dictionary*. If the content of the *Analysis* was indeed 'taken chiefly from' an early draft manuscript, then a comparison between the monetary ideas found in that work and those in the *Essai* and in Postlethwayt's *Dictionary* can provide us with valuable insights into how the Irish banker's ideas evolved during the process of composing his ground-breaking work. This comparison is attempted in this section. The discussion will focus on three topics in monetary theory for which both Richard Cantillon and David Hume are famous, *i.e.* the quantity theory of money, the price-specie flow mechanism, and the determination of the interest rate.

4.1. The Quantity Theory of Money

Most modern students of Cantillon's work have argued that he did not in fact subscribe to the quantity theory of money. That is to say, Cantillon '[...] was not prepared to accept a crude monetarist view that, if the money supply increased, prices would rise proportionally' (Murphy 2009: 85). It is indeed true that the Cantillon of the *Essai*, as we for our purposes will have to call him, makes conscious efforts to distance himself from earlier formulations of the quantity theory, specifically those found in John Locke.²² He does this by examining in detail the channels through which additional quantities of money enter the circular flow. From this much-admired analysis he concludes:

that by doubling the quantity of money in a State the prices of products and merchandise are not always doubled. A River which runs and winds about in its bed will not flow with double the speed when the amount of its water is doubled

(translation Higgs 1931:177).

²¹ In three places sentences that appear in Hume's essay are omitted, and occasionally a word is changed.

²² I do not consider here the anachronistic question whether John Locke can be considered a monetarist. For a discussion see Eltis (1996).

One might debate whether this conclusion implies merely a qualification of the quantity theory or a fundamental rejection, but it clearly does *not* endorse a simple view of a proportional relation between money supply and the price level.

Curiously, this simple view *is* found in *The Analysis*. The first statement of the quantity theory of money in that work is in chapter XII, *Of Mines and Barter* (Cantillon, 1759: 25-33). This chapter commences the analysis of money by considering metals, like copper and silver, as products of mining activity similar to other commodities like lead, coal, and tin (*ibid.* 25-6): their 'value' is determined by their cost of production, *i.e.* the 'Value of Land and Labour made use of', while their 'price' varies with market demand, or more precisely 'according to the Taste, Luxury and Will of the Proprietors of Land' (*ibid.* 26).²³ Subsequently it is supposed that in a small state or community, with mines, but 'without foreign Trade or Intercourse with its Neighbours', copper is introduced as money:

Suppose that part of this Metal is ordered to Pass for Money; it is clear that this new Use for it, would cause a greater Demand, and a greater Quantity would be taken from the Mines, than formerly, in order to supply this new Demand (*ibid.* 27).²⁴

While this perhaps suggests a conception of the money supply as an 'endogenous' quantity, *i.e.* produced in response to the demand for it, in subsequent passages of chapter XII money tends to be considered as a given quantity. Once metal (primarily silver and gold) came to be used as money, then 'by its Quantity at Market, [it] finds its Proportion, by passing there at a fixed Value in Exchange for the Land's produce'.²⁵ After explaining further 'how Money operates in bringing about this Proportion', in a passage that exhibits clear parallels with the famous example in the *Essai* (II, ii, 2-4) of the determination of the market price of peas,²⁶ the *Analysis* considers the effects of a sudden increase in the money supply. In particular there is this striking statement of the quantity theory of money (left-hand column):

²³ The corresponding paragraphs in the *Essai* have a similar distinction but use somewhat different terms. There the distinction is between '*la valeur réelle ou intrinsèque des Metaux*' (I, xvii, 2) and '*la valeur des Metaux au Marché*' (I, xvii, 3). The Postlethwayt text in turn juxtaposes the notions of 'value' and 'price' in the same way as the *Analysis* (see Postlethwayt, 1751-5, II, 271).

²⁴ In a slight elaboration the Postlethwayt text says that the additional demand for copper when it starts being used as money, will first raise its price and so stimulate a greater production: 'this additional demand of copper will make it dearer, and encourage the digging out of the mines more of it than usual' (Postlethwayt, 1751-55, II, 271).

²⁵ The Postlethwayt text expresses this same idea more fully: 'Money alone (I do not here consider what is used for money) naturally finds out this proportion, and the quantity of money which is brought to market to barter for each kind of commodity, readily fixes the proportion of value that is between them all, *Quae eadem uni tertio sunt eadem inter se* ['What are identical with a third thing are identical with one another']. Every body who brings money to market knows what money he has to lay out for the expence of that day'. The French text does not have a direct counterpart to these passages.

²⁶ The Postlethwayt text has corresponding passages to the two other versions in the entry 'Barter' (Postlethwayt, 1751-5, I, 222). One difference is that while the *Essai* and the *Dictionary* use the market for peas as an example, the *Analysis* uses wheat.

Table 1

Analysis (p.31)

Let us suppose a Town, and the Lands about it, that has no Communication with its Neighbours, and that the Money necessary in Circulation, in such a Place is 100,000*l.* to carry on all its Wants; and let it be supposed that this Sum by one Accident or other, increased to 200,000*l.* so that such as had twenty Shillings, would by this increase have forty Shillings: this Town and its Districts about it, considered in itself, would not be richer, happier, or more powerful than it was before this Acquisition; but the Prices of every Thing would be double to what it was before: and this I shall attempt to make clear, by what I shall say of the consequential Effects of the Increase and Decrease of Money to a Community.

Universal Dictionary (I, 223)

If the money which carries on the barter of a city (which, at present, we will consider as if there was no other in the world) be 100,000 ounces of silver, that is to say, if all the proportions of the values of all goods and commodities in the said city, be measured by the 100,000 ounces; or, what still comes to the same thing, if these 100,000 ounces pass for pledges, and keep the accounts of the pretensions of all barterers in the said city. And if, in these circumstances, the said city receives 100,000 ounces more, so distributed that every one who has had an ounce of silver, has now two ounces, and that the quantity of money in circulation becomes 200,000 ounces of silver; this city, considered in itself, is not in any respect richer or happier than before: it will only happen that all goods and commodities will grow twice as dear as they were. - Though this consequence seems mighty plain, yet I shall endeavour to set it in a clearer light under the article MONEY, when I come to consider particularly the effects of the increase and decrease of the real quantity of money in a state.

It is worth noting a few things about this statement. First, a kind of thought experiment is proposed whereby the money supply of an economy, explicitly considered in isolation, is suddenly doubled for some *exogenous* reason ('one Accident or other'). Second, it is argued that, as a consequence, only the general price level would be affected (indeed, it is doubled), leaving the volume of output unaffected (that is, the economy would not be 'richer, happier, or more powerful' than before the change). This bold statement of what in modern economics is called the 'neutrality of money'²⁷ is of course quite different from the much more guarded positions known from Cantillon of the *Essai*: in particular a) there is no attempt to explain any transmission mechanisms between money and prices, b) the injection is assumed (for simplicity?) to be such that all individuals, in the same moment, see their money holdings doubled,²⁸

²⁷ Patinkin (1987) explains that the phrase 'neutrality of money' came in use in the 1930s to indicate the proposition that money and absolute prices vary proportionally in the long run leaving relative prices and the level of real output unaffected. But as Blaug (1996a: 29-30) points out this was 'a familiar quantity-theory proposition all through the nineteenth century long before a memorable name for it had been invented'.

²⁸ Note that the same assumption is made, more explicitly, in the Postlethway text. One gets the impression that in that version the assumption serves as an initial case that can subsequently be varied. The *Analysis* does not clearly offer a discussion of these variations but the *Dictionary*, like the *Essai*, does. The *Essai*, in turn, does not consider the "proportional distribution case" from the outset. Only in the concluding remarks of the relevant discussion there is an acknowledgement of the case as an exceptional situation in which a proportional increase in the general price level will indeed occur: 'the dearness caused by this [increase in] money does not affect equally all kinds of products and merchandise, proportionably to the quantity of money, [...] unless those who offer in the Market one ounce of silver be the same and only ones who now offer two ounces when the amount of money in circulation is doubled in quantity, and that is hardly ever the case' (*Essai* II, vii, 10, translation Higgs 1931:181; emphases added). Thus all versions agree on the point that if the increase in the money supply would be distributed equally to all participants in proportion to their previous money holdings, the effect on prices would be "neutral". But they differ with regards to the importance given to this case.

and c) there is no distinction between the immediate ('short run') and eventual ('long run') effects on prices and output.

In fact, the passage is sufficiently unlike what we find in the *Essai* to entertain reasonable doubt whether Richard Cantillon could have written it. Could Philip Cantillon instead have borrowed it from an author other than his cousin? David Hume would appear to be a likely candidate, especially because it is evident that Philip knew his *Political Discourses*. We will see in a moment that the latter does indeed link the views discussed above to Hume's positions. Nevertheless, the conclusion that they are no more than paraphrases of Hume is unwarranted: comparing the *Analysis* passage of page 31 with the corresponding one in Postlethwayt's *Dictionary* (see the right-hand column in table 1), it is quite clear that the structure of the argument, though not the actual wording, is very similar. This strongly suggests, first, that Philip Cantillon did not write this passage, or the preceding and subsequent passages, in imitation of Hume.²⁹ Second, since the entry 'Barter' of the *Dictionary* was first published in the spring of 1752, it is highly unlikely that Postlethwayt had in his turn based those passages on Hume.³⁰ Something more interesting is likely to have been the case: Postlethwayt and Philip Cantillon appear to have relied on manuscripts of a third author in which some ideas were expressed that resembled the later views of Hume.

This impression is confirmed by an examination of the subsequent fragments referred to in each of the final sentence of the two passages in table 1. In the *Analysis* it is a reference to chapter XVI (pp. 51-61), which has the precise title *Of the consequential Effect, which the Increase and Decrease of the current Coin of a Country, has on the Community*; in the *Universal Dictionary* the discussion is found in the entry 'Money', under the subheading *Of the INCREASE and DECREASE of the ACTUAL QUANTITY OF REAL OR HARD MONEY in a STATE* (Postlethwayt, 1751-5, II 283). Some of the passages in those sections in turn correspond with *Essai* II, vi, which has the strikingly similar title: *De l'augmentation & de la diminution de la quantité d'argent effectif dans un Etat*.³¹

It is precisely in this chapter vi of part II of the *Essai* where Cantillon commences his celebrated discussion of the effects of increases in the money supply, analysed under various assumptions with

²⁹ Figure 2 gives an impression of the extent of correspondence between *Analysis* chapter XII and Postlethwayt's entries 'Mines' and 'Barter'. Examples of textual comparisons of passages in this part of the texts are given in notes 26 to 29 above. Further comparisons cannot be given here apart from that between the paragraphs that immediately follow the ones cited in table 1. Both texts discuss an alleged historical case of a sudden increase in the money supply, namely the moment Augustus returned to Rome with a great treasure after defeating Anthony and Cleopatra, something that is said to have doubled prices in that city. (Actually, the source of this story Cassius Dio *Roman History*, book 51, chapter 21, only mentions a rise in prices, not a doubling). There are some interesting differences between the corresponding paragraphs. In particular, the Postlethwayt version is much more careful to distinguish between the effects of a sudden and a gradual increase in the money supply:

Analysis (p.31):

'History informs us, that after the Defeat of Anthony and Cleopatra, by Augustus Cæsar, the immense Riches brought by him to Rome, and there dispersed in Circulation, raised the Price of Provisions and Merchandize to double what they were before.'

Dictionary (I, 223):

'When Augustus returned to Rome, after the defeat of Mark Anthony and Cleopatra, he brought with him so great a quantity of money, that all goods and commodities sold immediately for double the value they sold before, as Dion Cassius tells us. If all the money he brought to Rome had been laid up in the treasury, it would not have had this effect; for it would have entered but slowly into circulation and barter: but he distributed it among his soldiers, whom he was not able to pay after the battle of Actium, by which means it came quickly into circulation.'

³⁰ 'Barter' was first published in issue 19 of the *Universal Dictionary* from which it can be deduced that it appeared around March 1752. As was noted (n.13 above) Hume's *Political Discourses* was published in England in the first week of March 1752. It is improbable that Postlethwayt would have had the time to digest the content of Hume's work by this time. More importantly, the correspondences between the entry 'Barter' and *Essai* II, ii are simply too great for there not to be a strong link with Richard Cantillon. To be sure, Hume's *Political Discourses* are quoted in Postlethwayt's *Dictionary*, but only in entries that first appeared some time later. The first entry that contains a long quotation from Hume's 'Of Public Credit' is 'Credit, or public credit' (Postlethwayt, 1751-5, I, 576-81; see p. 580 to end). This entry first appeared in issue 49, which was published in the first few months of 1753.

³¹ Higgs (1931: 159) translates the term 'argent effectif' with 'hard money' possibly relying on Postlethwayt. Saucier and Thornton (2010) simply leave the adjective out.

regards to the source and point of entry into circulation of the additional quantity of money. In the French text the whole discussion is presented as a critical development of John Locke:

[Locke] has clearly seen that the abundance of money makes everything dear, but he has not considered how it does so. The great difficulty of this question consists in knowing in what way and in what proportion the increase of money raises prices
(*Essai* II, vi, 4; translation Higgs, 1931:161).

While the *Essai* starts the discussion of this question with the assumption of an increase in the money supply due to a discovery of silver or goldmines, the considerably shorter discussion of the *Analysis* again assumes 'an Accident'³²:

Suppose fifteen Millions of Specie sufficient to circulate the Trade of *England*; this Money would roll backwards and forwards amongst the Individuals of Society, in Barter and Exchange of the Land's Produce, and in its several Windings and Turnings, it fixes the Rents of Land, as also the Hire of Labour and Artizans.

Let it be again supposed, that these fifteen Millions of Money, by some Accident or other, was all of a sudden doubled and put in the Channels of Trade; the Money then circulating in *England* would be thirty Millions;
(Cantillon, 1759: 51-2)

The account of what would happen subsequently attempts to sketch a transmission mechanism and suggests some development beyond a mere restatement of the simple quantity theory. I quote it in full³³:

[...] this sudden Increase of Cash, would increase a proportional Demand for Merchandize, as also for Labour and Industry, and consequently enhance their Price, as also that of all Sorts of Goods and Merchandize; and whenever Things got up double in Price to what they formerly went at, properly speaking, no one would suffer, but the Landholders; the Farmers would be Gainers during the Term of their Leases; but when these expired, the Landholders would double their Rents, and justly, as the Land's Produce sold at double to what it formerly yielded.

This sudden Increase of Species would encourage Merchants and Manufacturers, to embark a-new in fresh Undertakings and Adventures, and from the Increase of their Money, they would naturally be induced to indulge themselves in better Living, to keep better Tables, and consequently a proportional Demand would arise both for the Necessaries of Life, and for Labourers and Artizans; and the Proprietors of Land would receive double Income to what they formerly received; and this Increase of Money being thus thrown into Circulation, and thereby the Prices of all Things becoming in proportion dearer, yet the Merchants not being able to get a proportional Profit on their new Undertakings and Adventures, they would in this Case, if guided by Prudence to themselves and Families, be necessitated to retrench their new Method of Living, and return to the Old; otherwise the Consequence must be Bankruptcy: and others, who lived with greater Oeconomy, and saved their Profits, would rise in their Place; *all Things in the Course of Time, would return to their former Situation*; for let who will suffer Money and Labour, by degrees, will at last find their due Proportion; because if it is certain that the Quantity of coined Money in the Channels of Trade, and the Credit there given, forms and fixes from time to time the Prices of all Things at Market

³² These two short paragraphs only have counterparts in the *Dictionary* (Postlethwayt, 1751-5, II: 283, 'Money').

³³ These two paragraphs show correspondences with both *Essai* II, vi, 8 and with the *Dictionary* text (Postlethwayt, 1751-5, II: 283, 'Money'). In fact, the latter version exhibits most correspondences with the other two and appears to combine the argument.

(Cantillon 1759: 52-4; emphasis added).

The case considered shows similarities with the earlier statement (quoted in table 1 above), in the sense that a sudden 'exogenous' doubling of the money supply is considered, and that foreign trade is abstracted from. However, the argument is more developed, because a) a transmission mechanism is considered, b) there is some suggestion that not all prices, and rents especially, will rise at the same time, and c) a *temporary* expansion of economic activity, coupled with increases in consumption, is acknowledged. However, compared to the other two versions, in the *Analysis* the assumption of who gets the additional money first and what are the subsequent relative price and output effects is far less distinct.³⁴ What is more, this is where the discussion that appears to be based on Richard Cantillon's manuscript ends, while the two other versions offer extensive further discussions.³⁵

It has to be said that the similarities between the views expressed in the various passages identified here (chiefly pp. 31-3 and 51-4 of the *Analysis*) and Hume's essay 'Of Money' are striking. That this did not escape Philip Cantillon is clear from the fact that in the remainder of chapter XVI he paraphrases 'Of Money' (pp. 54-5), before digressing on the trade of Holland and Ireland. A very similar thing occurs somewhat earlier in the text where Philip appears to have inserted a whole chapter of his own, XIII *Of Money and its Value* (pp. 34-42; cf. figure 2), which contains more extensive quotes and paraphrases of Hume's essay 'Of Money'.³⁶ In one place Philip Cantillon makes a direct link between the passage quoted and Hume's views:

I have already observed [i.e. p.31, see table 1] that in considering one Country in itself, without Trade or Connection with its Neighbours, the greater or less Quantity of Money is of little Consequence to such a State or Community: 'tis only those Nations and Kingdoms who have Connections and Commerce with their Neighbours, that reap the Advantage of the superior Figure, Power, and Influence which Money gives them over other States and Monarchies

(Cantillon 1759: 37-8; emphasis added).

The fact that part of the first sentence is found almost verbatim in 'Of Money' shows that Philip is here borrowing from Hume.³⁷ The next two pages in the *Analysis* follow the Scotsman's argument and include his well-known proviso that when an increase in the money supply results from a positive balance of trade it can *temporarily* have positive effects on output³⁸:

³⁴ Note that even though the *Analysis* passage does not clearly specify a social group that is assumed to receive the increase quantity of money at first, there is a suggestion that 'Merchants and Manufacturers' are early recipients. In the *Essai* it is the people who are most directly involved in the mining of precious metal. In the Postlethwayt version, on the other hand, the assumption is that the additional money, 2000 ounces of silver, is initially received 'for a present from Americans' by the 'undertakers' of a country (Postlethwayt, 1751-5, II, 283). It is important to note that by supposing 2000 ounces of silver to be in circulation previously, the Postlethwayt text continues a discussion of the circulation of money elsewhere in the *Dictionary* (*ibid.* 'Cash' I, 463), which offers a more extended version of *Essai* II, iii.

³⁵ The *Essai* does of course continue with the consideration of the effects of various other injections of money into circulation. The same is true for the Postlethwayt text, although there are fascinating differences between that text and the *Essai*, including a very clear statement of indirect transmission effects through the interest rate and a more rigorous distinction between the effects of an increased money supply in a closed and an open economy. This *may* indicate that the Postlethwayt version was actually based on a manuscript that in this place was *more* developed than the French text. This intriguing possibility cannot be dealt with in greater detail here because of our focus on Cantillon's early monetary thought.

³⁶ Those passages are intermixed with ideas that sound more like Richard Cantillon, but for which direct counterparts are found in neither the *Essai* nor the *Dictionary*.

³⁷ The sentence in 'Of Money' reads: 'If we consider any kingdom by itself, it is evident, that the greater or less plenty of money is of no consequence' (Hume, [1952] 1955: 33).

³⁸ A variety of views exist about the meaning of Hume's proviso to the 'notorious proportionality theorem' (Blaug, 1996a: 29). Most common is the interpretation that Hume allows for the non-neutrality of money in the short run only. Alternatively Wennerlind (2005) argues that Hume allows for positive effects on real output only if the increase in the money supply is 'endogenous', i.e. a result of a positive balance of trade. Yet other commentators, e.g. Rotwein (1955: lx-lxvi), Rashid (1984), Murphy (2009: 101) have warned against attempts to read too much consistency into Hume's contradictory statements. Without going over the differences in these views, it may be said that Philip Cantillon's rendering of Hume's proviso is consistent with more than one interpretation of the latter's position.

[...] but in a Country in which real Money begins to flow, from the Consequence of a well-regulated [foreign] Commerce, Industry and Labour gain new Life; tho' the high Price of Goods is a natural Consequence of the Increase of Bullion, yet this Consequence does not immediately follow. Money acquired by Trade takes Time before it circulates; its Effect is produced by degrees, and until it arrives at its height, all Degrees of People in the Nation are whetted by a laudable Ambition and Application to acquire some Part of this Money flowing in upon them. Money thus becomes dispersed into many Hands, enters into every Transaction and Contract, and encourages Labour and Industry
(Cantillon 1759:39).

This passage also paraphrases, not very well but undeniably, Hume's 'Of Money'.³⁹ As we saw, the idea of temporary real effects caused by increases in the money supply also occurs in a passage that appears to have been taken from an earlier draft of Richard Cantillon's writings. Here the similarities with Hume, including the view that 'all Things in the Course of Time, would return to their former Situation' (Cantillon 1759: 53), are indeed striking. However, these similarities cannot simply be explained by an effort of Philip to make his cousin's ideas resemble those of Hume more closely.

If the various passages identified here (chiefly pp. 31-3 and 51-4), dealing with the effects of increases in the money supply, were indeed taken from the manuscript of 'a very ingenious Gentleman deceas'd', something which must be considered probable, then one is tempted to sum up Richard Cantillon's early views on this topic as follows. He appears to have started from a more or less traditional position with regards to the effects of increases in the money supply, as can be found in earlier authors such as Jean Bodin, William Potter and John Locke.⁴⁰ His depiction of the transmission mechanisms from increases in money to increases in prices was quite rudimentary, there is some consideration of temporary output effects, but the statement of eventual proportionality is rather dogmatic.⁴¹ There was little of the later awareness of the importance of the source or point of entry of the additional money into the circular flow and no careful analysis of relative price effects. In a word, was this how Richard Cantillon thought before he hit upon, well, the 'Cantillon effect'?⁴²

What may be significant here as well is that there is hardly any counterpart in the *Analysis* to *Essai* II, chapters iii to v, in which detailed analysis is offered of the determinants of the demands for, and hence velocity of, money (see figure 3). Only one single paragraph indicates some consideration of these topics.⁴³ Could this mean that the early Cantillon had not yet developed his distinct ideas about

³⁹ In particular, the following phrase in Hume ([1752] 1955: 37-8) is evidently paraphrased: 'though the high price of commodities be a necessary consequence of the encrease of gold and silver, yet it follows not immediately upon that encrease; but some time is required before the money circulates through the whole state, and makes its effect be felt on all ranks of people'.

⁴⁰ On Jean Bodin see O'Brien (2000), on Potter see Viner (1937: 40-5) and on Locke see Eltis (1996).

⁴¹ At a later point in the *Essai* (III, v, 15) Cantillon refers the reader to 'the principles I have established that abundance and scarcity of money in a State raises or lowers all prices proportionably [*à proportion*]' (translation Higgs 1931: 295). This is curious given the fact that in *Essai* part II the proportionality assumption is severely qualified. However, if Cantillon originally did subscribe to this assumption more fully then this statement does not appear so odd, because it may be explained as having survived later revisions by the author.

⁴² The actual term 'Cantillon Effect' appears to have been coined by Mark Blaug in the second edition of his *Economic Theory in Retrospect* (1968: 151). It refers to the insight that the effects of increases in the money supply on prices of individual products vary, depending on the source and point of entry into circulation of the additional money. It is worth noting that modern elaborations and perceived implications of the 'Cantillon effect', especially in Austrian economics, require additional theoretical assumptions that are absent from the Irishman's writings. For a good discussion see Hagemann and Trautwein (1998).

⁴³ This paragraph appears in the short chapter XIV of the *Analysis* (pp. 42-4), entitled 'Of the Circulation of Money'. Whilst it is the only paragraph of that chapter that has a clear counterpart in the *Essai* (II, iii, 20), there is a full counterpart in all three texts reads in the *Dictionary* entry 'Cash', except for the final paragraph. The paragraph that has a counterpart in all three texts reads in the *Analysis* version: 'The Payments made by Tenants to Landlords, Farmers to Labourers, and Tradesmen to Farmers for the Produce of the Land, Merchants to Manufacturers, the Proprietors of Lands to Tradesmen and Artists; and lastly, by the Prince to his Courtiers and Pensioners, is what is called Circulation of Money; the oftner these Payments are made, the quicker Money shifts Hands, and goes round; and it is calculated that the Coin which conducts the Circulation of a Kingdom, is about the ninth Part of the Value of the Produce of the Land, and the Value of the Labour necessarily had to form it into Use' (Cantillon, 1759: 43-4). Especially

circulation, especially the varied speeds at which the 'three rents' are circulated within the economy?⁴⁴ Clear ideas as to the circulation of money and the nature of the demands for money would appear logically prerequisite to the more sophisticated analysis of the effects of an *increase* in the money supply that is found in both the *Essai* and the *Dictionary*. Admittedly, this impression of the development of the Irishman's ideas with regards to the effects of increases in the supply of money (in a closed economy) is something of a conjecture. Nevertheless one may want to consider the plausibility of a remarkable transformation in the ideas of this brilliant early theorist, which *if made by a modern economist* would be tantamount to moving from a Monetarist to a more Keynesian or Austrian position.⁴⁵

4.2 The Price-Specie-Flow Mechanism

Another, but of course related⁴⁶, topic is that of the connections between inflows and outflows of precious metals, due to imbalances in foreign trade, and the general price level and production of a nation. As with the analysis of exogenous changes in the money supply within an essentially closed economy, Hume's theory of the self-adjusting process of the international of specie flows and price levels, has been interpreted as a less sophisticated version of Cantillon's analysis (see Murphy, 2009: 105-6). Again, the discussions of this topic that are found in the *Analysis* throw some fascinating light on the matter.

The principal discussion of this topic in Philip Cantillon's work is found in chapter XV, pages 45-51, which has the title *Of the Ways and Means by which real Species Increase and Decrease in a Kingdom*. There is no clear counterpart for this chapter in the *Essai*, although both the title and subject matter of part II chapter viii of that work show similarities. However, the Postlethwayt version has a fragment (Postlethwayt 1751-5, II: 5, entry Labour) that offers close counterparts to the *Analysis* chapter. In fact, the *Dictionary* fragment is a more extended and sophisticated version of essentially the same argument.⁴⁷ The two versions are presented in parallel in the appendix to this paper. Since both English versions have these passages, it is argued that here too we are looking at fragments written by Richard Cantillon, despite the considerable discrepancies with the generally recognised text of the *Essai*.

These, hitherto unnoticed, English versions offer a fascinating description of what can perhaps best be described as a long trade cycle of a country, namely France. Developments are analysed from the moment when, as the result of a civil war, the country suffers a great decline in production, population and the general price level, as well as a substantial outflow of precious metals (see appendix paragraphs 2-4). Once the civil war finishes the country enjoys an extended period of expansion in economic activity, due to the cheap availability of land, frugal living of the rich, coupled with an increasing consumption of a growing population and a great demand for exports (appendix paragraph 5). The latter leads to a

important is the estimate that the quantity of money in circulation is a ninth of the annual output of the economy. It also appears in the two other versions.

⁴⁴ To be sure, the 'three rents' theory does briefly figure in chapter XXI of the *Analysis* (pages 114-8). This chapter occurs out of sequence compared to the *Essai*, and corresponds to part I, chapter xii of the latter work. What is missing from the *Analysis*, however, is the application of the three rents theory to the analysis of the circulation of money, as found in *Essai* II, iii and the *Dictionary* entry Cash (Postlethwayt 1751-5, I, 463-4). Moreover, William Petty, who in the *Essai* and *Dictionary* is quoted prominently as an earlier writer who had tried to estimate the required size of the money stock, is not mentioned anywhere in the *Analysis*.

⁴⁵ Of course, Cantillon was neither a monetarist, nor a Keynesian, nor an Austrian and by likening his monetary views to modern theories there is the danger that his writings are given an anachronistic reading, especially where perceived policy recommendations are concerned. Nevertheless, these comparisons are to some extent enlightening. Seeing Cantillon as a clear forerunner of Austrian economics, Thornton (2006: 47-50) argues that the Irishman's main aim in the *Essai* was to demonstrate the non-neutrality of money. Alternatively, Shackle (1982: 772-7), noting non-neutral effects of changes in amongst other things the money supply, points out a number of parallels between the analyses of money of Cantillon and Keynes.

⁴⁶ Sekine (1973: 278) observes that historically ideas about tendencies towards international monetary equilibrium arose 'as a direct consequence of the quantity theory of money'. It is only as a consequence of Cantillon's characteristic method of first considering simpler cases ('a Town that has no Communication with its Neighbours') that the two topics are distinct in his work (and that in the simpler case the direction of causation from money to prices is unambiguous).

⁴⁷ The Postlethwayt version also exhibits greater similarities with *Essai* II, viii than the *Analysis* version.

persistent inflow of precious metal and subsequently to rising prices. Eventually a kind of turning point is reached: after it arrives at its 'highest Point of Power and Riches' (paragraph 7, Cantillon, 1759: 48)⁴⁸ the balance of trade turns against the country and a net outflow of precious metals will commence.

It is worth noting that both English versions offer a number of explanations for the reversal in the balance of trade (see paragraph 7). Both mention the price effect, *i.e.* the argument that foreign countries will start producing their own manufactures when the prices of French manufactures increase as a result of the inflow of money into the latter country. Both also note a kind of cash balance effect, namely the argument that merchants, who have amassed wealth and landlords who have higher incomes, will consume more imports and once a taste for the consumption of foreign luxuries is established it is not easily changed. An additional argument which only figures in the *Analysis* is the suggestion that imports increase once a ceiling to agricultural production capacity is reached: 'the Increase of Coin would increase a Demand for more than the Land could produce; and consequently this Demand must be supplied by foreign Produce'. Also only in the *Analysis* the doubtful observation is made that, as a result of these effects, 'in a Course of Years the Nation would be drained of all its Coin' (paragraph 7, Cantillon, 1759: 48).⁴⁹

An important difference between the two English versions is that in the *Analysis* the description of the trade cycle is presented as a hypothetical case; the reader is invited to imagine that a civil war broke out in France 'in the Year 1740' (paragraph 2; Cantillon 1759: 45). It seems most likely that Philip, rather than Richard, Cantillon came up with this date.⁵⁰ In contrast, the Postlethwayt text explicitly presents the case as a historical example; the civil war mentioned is in fact the Fronde, which ended in 1652, and the high point of economic might is said to be in the early 1680s, after which a gradual decline set in until about 1715. This allows one to say that the length of the cycle from trough to trough is in this account supposed to be about 60 years with a peak roughly in the middle (paragraphs 8 and 9). This periodisation is similar to that found in the *Essai*.⁵¹

Another difference is the clear manner in which the Postlethwayt text states that the historical example of France is merely an instance of a *general* process:

The rise and decline of all other kingdoms, naturally and abstractedly from wars and conquests, are owing to causes of the like nature; and, when a nation gets a great plenty of money, and increases exorbitantly in it's [*sic*] paper circulation, it naturally tends to decline, by the dearness that happens of land, labour, and commodities [...] where things go on in their natural course, the too great plenty of money, or paper credit, by enhancing the price of things, gives other rival nations an opportunity to take the trade into their hands, and to get the money along with it

(paragraph 10; Postlethwayt 1751-5, II, 5).

In the Postlethwayt version it is argued that policies of 'a legislator' can only hasten or slow down this 'natural course' of the fortunes of a nation. Poor policies such as the expulsion of the Huguenots had hastened the decline of France (paragraph 9), though it would have occurred anyway; good policies, such as reducing the velocity of money circulation and removing precious metals from circulation when the

⁴⁸ In the Postlethwayt version the high point is called the moment France is 'in its acmé'. This term expresses the interesting notion of an achievement that carries within it the seeds of its own destruction.

⁴⁹ Recall that Hume ([1752] 1955: 61) specifically rejects the view, which he ascribes to Joshua Gee, that this would be possible.

⁵⁰ In addition to his wish to bring his cousin's writings, literally, up to date, one can imagine that at a time when anti-French sentiments were running high, due to the seven-year war, Philip Cantillon would have thought it a pleasing exercise for his British readers to imagine the enemy experiencing new civil strife.

⁵¹ In *Essai* II, viii, 7 it is stated that the power of France has been on the increase since 1646, when manufactures of cloths were set up and that it reached its peak in 1684, when the Huguenots were expelled. No clear date is given for the next trough. From this one could reasonably conclude that the period from trough to trough in the *Essai* is closer to 80 years (see Thornton, 2006: 52-3). Nevertheless the turning point in the mid-1680s is similar to the Postlethwayt version.

competiveness of the nation was affected by inflation, could merely slow down, not stop, the decline (paragraph 10).⁵²

Interestingly, the last date in the historical account in the Postlethwayt version is 1715, just before the ascendancy of John Law. In keeping with the foregoing analysis one would not have been surprised to find an advocacy at this juncture of a policy of extending the money supply and paper credit, because, as the French version has it, '*un habile Ministre est toujours en état de lui [i.e. the economy] faire recommencer ce cercle*' (*Essai* II, viii, 16). However, the historical account in the Postlethwayt version stops just at the beginning of Law's System.⁵³

The *Analysis* version, on the other hand, does mention the bubble year 1720, but the authorship of the passage is questionable because halfway through the paragraph (see paragraph 10), Philip Cantillon starts paraphrasing Hume's 'Of Public Credit' about the potentially disastrous effects of a large public debt.⁵⁴ This topic does not follow easily from the earlier discussion and it appears that Philip failed to see that the discourse of Hume of which the subject matter is much more closely related is 'Of the Balance of Trade'.

In that discourse one passage in particular reminds of the sequence of events that in the *Analysis* version commences at the moment the civil war subsides, although in Hume the depletion of the money stock is instead the result of an unexplained event:

Suppose four-fifths of all the money in Great Britain to be annihilated in one night, and the nation reduced to the same condition, with regard to specie, as in the reigns of the Harrys and Edwards, what would be the consequence? Must not the price of all labour and commodities sink in proportion, and every thing be sold as cheap as they were in those ages? What nation could then dispute with us in any foreign market, or pretend to navigate or to sell manufactures at the same price, which to us would afford sufficient profit? In how little time, therefore must this bring back the money which we had lost and raise us to the level of all the neighbouring nations? Where, after we have arrived, we immediately lose the advantage of the cheapness of labour and commodities; and the farther flowing in of money is stopped by our fullness and repletion

(Hume [1752] 1955: 62-3).

Despite the similarities of this passage with Cantillon (1759: 46-8; paras 5 to 7 in the appendix) it has to be said that Hume appears to envisage a much faster working balancing effect of specie flows on prices and vice-versa. In addition, as various commentators have pointed out, Hume's analysis is very largely limited to relative price effects only (see e.g. Sekine, 1973: 278-83; Rothbard, 1995: 427; Murphy, 2009: 105-8). As was already noted, in the *Analysis* other effects, such as the cash balance effect are used as additional explanations of why the inflow of specie would lead to a deteriorating balance of trade.

However, in the *Essai* these effects are elaborated in more detail. In particular, there is a fairly clear understanding in that French publication that the transmission effect of specie inflow on prices is not so straightforward, due to the 'law of one price' of internationally traded goods. Hence additional effects,

⁵² According to Thornton (2006: 53) in the *Essai* state policies are not merely additional factors that may retard or hasten the 'natural course' but actually the root causes responsible for the cycle. If correct, this would suggest a substantial difference with the Postlethwayt version. In fact, however, in the *Essai* too phrases are used like 'the ordinary course of things' [*le cours ordinaire des choses*] to describe the cycle and that the downturn occurs '*insensiblement, mais naturellement*' (*Essai* II, viii, 5). Such phrases suggest that the cycle is a phenomenon inherent to the economies of trading nations. Therefore, perhaps the difference between the two versions on this point is mostly one of emphasis, and the interpretation that in the *Essai* state interventions cause the cycle too Austrian a reading.

⁵³ However, elsewhere in this version, as in the French text, the use of paper money and other credit-based instruments are discussed in favourable terms provided they are well managed.

⁵⁴ The paraphrases are on the second half of page 49 and almost the whole of p. 50 (not included in the appendix). These passages correspond to the content of Hume ([1752] 1955: 104-6).

such as the cash balance effect would seem to take on a greater importance. The chapter in which this argument is made, *Essai* II, vii, has no counterpart whatsoever in the *Analysis*. Perhaps this indicates that Cantillon added this chapter only in a later draft of his work.⁵⁵ This interpretation also implies that the Irish banker substantially rewrote *Essai* II, viii. However, perhaps this speculation requires further investigation before it can be accepted.

4.3 The Determination of the Interest Rate

The final topic of monetary theory is the phenomenon of interest payments. In the *Essai* the last two chapters of part II deal with this issue. To be precise, chapter ix introduces the nature of interest and ‘its causes’ and chapter x discusses the causes of changes in the rate of interest in a nation. In the *Analysis* the same topics are discussed in a single, short chapter, number XVII, entitled *Of the Interest of Money* (pp. 62-68). To be exact, pages 62-5 cover matters similar to *Essai* II, ix and pages 66-7 resemble arguments found in *Essai* II, x.⁵⁶ As can be seen from figure 1, the actual concordance between the *Analysis* chapter and what we find in the *Essai* is very limited. Again, however, the correspondence with the Postlethwayt text is more extensive (see figure 2), suggesting that we are not simply looking at a concoction by Philip Cantillon.

Generally speaking, most of the arguments made in the *Analysis* chapter are also found in the two other versions. For instance, a clear link is established in all three texts between the rates of profit and interest. The link is established in a sequence whereby first the profits are considered of an ‘undertaker’ who provides his own money capital and second, the interest paid by a new entrepreneur who has to borrow to set up his business⁵⁷:

Table 2

<i>Analysis</i> p. 63-4	<i>Essai</i> II, ix, 6 and 7	<i>Dictionary</i> 1, 996
But Merchants and Undertakers in Manufacture, whom I consider in my Supposition as the Proprietors of Money, acquire Subsistence from its Income, by employing it to the Use of the Labourer	D'un autre côté, un maître Chapelier, qui a du fond pour conduire sa Manufacture de chapeaux soit pour louer une maison, acheter des castors, des laines, de la teinture, &c., soit pour païer toutes les semaines, la subsistance de ses Ouvriers, doit non-seulement trouver son entretien dans cette entreprise, mais encore un profit semblable à celui du Fermier, qui a la	A master hatter, who sets up for an undertaker, hires a workhouse of a proprietor for his work, buys wool, poil de castor, &c. buys utensils and instruments fit for the work, hires several journeymen for daily wages, and makes all advances of money necessary in that business: as he corresponds to the overseer of slaves, and is the master and inspector of his

⁵⁵ As can be seen from figure 3, in the *Dictionary* there is no counterpart to *Essai* II, vii either. This poses a problem for my interpretation that the manuscript that formed the basis for the Postlethwayt version may be of a later date than the one from which the *Essai* derived. Cf. notes 37 and 61. One possible explanation for the absence of this, and other, *Essai* chapters from the *Dictionary* could simply be that Postlethwayt decided not to use them. But that is perhaps too convenient an explanation in this case. Cf. van den Berg (2011).

⁵⁶ The bottom of p. 67 and p. 68 until the end of the chapter mainly consist of a quotation from Locke that has nothing to do with the foregoing discussion.

⁵⁷ The paragraphs in the *Essai* and *Dictionary* that immediately precede the ones cited in table 2 show significant differences between each other. These variations in particular raise the issue whether Cantillon was groping towards a conception of profit as a return on capital advanced. That conception is certainly absent from the *Analysis* and is for that reason not discussed further here. See instead van den Berg (2012).

and Artizan: this Profit is proportioned to the Demand the Public has to support or supply the Taste and Luxury of the Proprietors of Land, and the Quantity of Money in several Hands to be advanced. A young Tradesman who has not wherewith to establish himself, is obliged to act as a Journeyman for Wages with some Master, Artist, or Manufacturer, the more Money the Master has to buy his Materials to supply the Calls of the Public, the more Men he is enabled to employ; by which he has the better Chance of enriching himself and Family, by his Care and Industry. [...]*

troisieme partie pour lui. Cet entretien, de même que ce profit, doit se trouver dans la vente des chapeaux, dont le prix doit païer non-seulement les matériaux, mais aussi l'entretien du Chapelier & ses Ouvriers, & encore le profit en question.

Mais un Compagnon Chapelier entendu, mais sans fond, peut entreprendre la même Manufacture, en empruntant de l'argent & des matériaux, & en abandonnant l'article du profit à quiconque voudra lui prêter de l'argent, ou à quiconque voudra lui confier du castor, de la laine, &c., qu'il ne paiera qu'à long terme & lorsqu'il aura vendu ses chapeaux. Si à l'expiration du terme de ses billets le Prêteur d'argent redemande son capital, ou si le Marchand de laine & les autres Prêteurs ne veulent plus s'y fier, il faut qu'il quitte son entreprise; auquel cas il aimera peut-être mieux faire banqueroute. Mais s'il est sage & industriel, il pourra faire voir à ses créanciers qu'il a en argent ou en chapeaux la valeur du fond qu'il a emprunté à-peu-près, & ils aimeront mieux probablement continuer à s'y fier & se contenter, pour le présent, de leur intérêt ou du profit. Au moïen dequoi il continuera, & peut-être amassera-t'il par degrés quelque fond en se frustrant un peu de son nécessaire. Avec ce secours il aura tous les ans moins à emprunter, & lorsqu'il aura amassé un fond suffisant pour conduire sa Manufacture qui sera toujours proportionnée au débit qu'il en a, l'article du profit demeurera en entier, & il s'enrichira s'il n'augmente pas sa dépense.

journeymen; as he lays out his money at an uncertainty, and runs the hazard of losing it; he must get, in the price of his hats, a profit proportionable to his risque, expence, and situation; and so he commonly does, lives pretty well, and maintains a family, and breeds up children; and, if he computes what his advances of money amount to, and what money he has by his profits, which he spends in his family, he will find that he has made 30 or 40 per cent. of his money; he will have sold 10,000 hats, or more, in a year, to a haberdasher of hats, who has paid him money for them, which reimburses his advance, and leaves the said profit, and enables him to go on with his employment, and advance for the ensuing year. [...]*

Now, if any one who has saved a sum of money, offers to lend it to a journeyman hatter, who earns but his small daily wages, by which the said journeyman may be enabled to set up for a master hatter, and turn undertaker, he would gladly promise him a share of his profits; for, though he would not to clear so much as the master hatter above mentioned, who had money of his own to set up with, yet it would mend his condition to be an undertaker; and a little experience would determine how much this journeyman, now master hatter, might well allow out of his profits to the person who lends the money, and enables him to set up; and his share of profit would be proportionable to the sum lent, and be called INTEREST of the money.

* Both English versions have an intervening paragraph

There are some variations between these paragraphs in the three versions that are more noteworthy than the fact that the *Analysis* talks about 'Undertakers' in general while the other two use the example of entrepreneurs in the hat trade. First, in the *Essai* version the point is made, somewhat casually, that there is no essential difference between having capital advanced in the form of money, borrowed at interest, or as goods supplied at a higher price, payable '*à long terme*'. In the two English versions, on the other hand, this point is made at greater length in the subsequent paragraphs, where it is asserted that the latter kind of lending, *i.e.* commercial credit, is the 'source and original cause of interest in a state'.⁵⁸

In the *Analysis* in particular, the theoretical importance given to commercial credit appears to be connected to a more prominent statement of the view that 'the several Profits made from Hand to Hand, down to the Consumer, must be paid by the Landed Gentry, who are the great Consumers of rich Manufactures' (Cantillon 1759: 63): entrepreneurs can only pay an advanced price for the materials obtained 'at Time and Credit' because they are able to charge their final consumers even higher prices and hence still make a profit.⁵⁹

A second, perhaps minor, variation between the three passages in table 2 is that only in the *Analysis* the person from whom the 'young Undertaker' borrows is explicitly identified as 'a Wholesale Dealer [who] finds himself in good Circumstances, [and who is] naturally [...] inclined to Ease and Retirement' (Cantillon 1759:64). The reason to note this is that it is reminiscent of Hume's argument in 'Of Interest' that it are specifically older merchants who have made their fortune, who often "switch sides" and become lenders to newer entrants into trade: 'Where merchants posses great stocks, [...], when they either become tired of business, or leave heirs unwilling or unfit to engage in commerce, a great proportion of these riches naturally seeks an annual and secure revenue' (Hume, [1752] 1955: 54). However, this striking similarity between 'Of Interest' and the *Analysis* in identifying lenders as established rich merchants might well simply reflect the reality of the times, rather than a direct influence.

A third and most significant variation is the statement, missing from the *Essai* and *Dictionary* versions, that 'Profit is proportioned to the Demand the Public has to support or supply the Taste and Luxury of the Proprietors of Land, and the Quantity of Money in several Hands to be advanced' (Cantillon 1759: 63; emphasis added). The formulation here is also found in a discussion earlier in the *Analysis* of

⁵⁸ These subsequent paragraphs, absent from the *Essai*, are the following (note the greater analytical clarity in the *Dictionary* version):

Analysis 64-5:

|| If this young Adventurer by his Assiduity and Industry can find a quick Sale for his Goods, he will be encouraged to increase his Undertakings; and for the Purchase of Materials he will apply to borrow more Money, which if he cannot find Lenders at Market to supply him with, he will be obliged to purchase the Materials of his Business at Time and Credit, and give an advanced Price for Want of Money to pay down.

|| This is, I apprehend, the Source of the Interest of Money, and is determined, as to its Quantum per Cent. by the several Adventurers in Commerce, who, from the Nature of their Business, judge how much of their Profits they can afford to divide with the Proprietors of these precious Metals.

Dictionary I, 996:

||If this new master hatter, by his skill, industry, and assiduity, works himself into good business, and has many customers, he will be able to increase and augment his undertakings; he will borrow more money to carry them on, out of which he will give a share of profit, or an interest; or, if he can buy wool and other materials, payable at a long term, he will give a higher price for them than the current, which is, in effect, to give a share of his profit, or an interest.

|| This seems to be the source and original cause of interest in a state. The wool merchant, gets an interest for the price of his wool from the hatter, in the term he gives him for payment; he himself borrows money, at a smaller interest, from some richer undertaker, and takes also time for payment; and this undertaker again gives a smaller interest to the monied-man, who commonly lends it to the most solvable and considerable undertakers.

⁵⁹ On pages 66-7 the conclusion is drawn that a high rate of interest in a country is due to the great luxury consumption of 'Gentlemen of Estates' and the fact that some of them end up mortgaging their properties when they want to continue to 'live above their Incomes'. Similar arguments are found in *Essai* II, x, 5 and in *Dictionary* I, 996.

the way prices of goods are determined 'by the Quantity of Money at Market' relative to the quantities of goods offered (pp.28-30; cf. section 4.1 above).⁶⁰ Reading these passages together one is tempted to conclude that in the *Analysis* the following causal link is made between the quantity of money in circulation and the level of profit: market prices are the result of the confrontation between quantities of goods supplied and the demand (money available and consumer credit) for them; hence the level of market prices determines profit margins received by entrepreneurs (a kind of 'profit upon alienation'). What is remarkable about this argument is that in the *Analysis* it is subsequently extended to serve as an explanation for the rate interest. This can be seen in the following passage where the rate of interest is explicitly related to the quantity of money in circulation:

Land is lett to Farmers, to spare the Proprietors thereof the Trouble of cultivating it; and the Proprietor of Money disposes thereof at *Interest*, to avoid the Risk and Trouble annexed to Trade; and its Income fixes itself, by the Demand the public has for Labour and Industry, and *is proportioned by the Quantity of Specie in Circulation*: In a Nation where there is no Trade or Industry, the greater or lesser Quantity of Money is of no Use; it is the hard Hand of Labour and Industry which gives it a Value, and the Agreement and Convention of the Society has fixed its Standard as a Measure in Exchange and Barter for the Produce of Land and Labour

(Cantillon, 1759: 65-6; emphases added).

What is significant about this *Analysis* passage is that it suggests a very different explanation of how the interest rate is determined than the other two versions. Admittedly, the idea expressed in the first sentence, *i.e.* that the proprietor of money, like the proprietor of land, farms out his assets 'to avoid the Risk and Trouble' of employing it himself, can also be found in the *Dictionary* and the *Essai*.⁶¹ However, the subsequent statement that the rate at which money is lent 'fixes itself, by the Demand the public has for Labour and Industry, and is proportioned by the Quantity of Specie in Circulation' is contradicted in the other two versions.

As is well known, the Cantillon of the *Essai* explicitly rejects the 'common idea, received of all those who have written on trade', that there would be a 'necessary connection' between the 'plenty or scarcity of money in a State' and 'the rate of interest' (*Essai* II, x,1 and 3; Higgs translation 213-4). Instead, he presents the novel theory that the rate of interest is 'settled by the proportionate number of Lenders and Borrowers'.⁶² This theory that the rate of interest is determined by the supply of and demand for 'loanable funds' was seminal. More precise variants would later be developed not only by Hume, but also by Turgot and Smith and would generally find wide acceptance in classical political economy.

But is it possible that Richard Cantillon initially accepted something like the 'commonly received' view, only to develop his own theory in the process of writing more advanced versions of his work? In the *Essai* and the *Dictionary* instead of a statement directly linking the quantity of money in circulation and the interest rate one finds the opinion that '[t]hough money passes for a pledge in exchange it does not

⁶⁰ The conclusion of that earlier discussion has a very similar wording: 'From what is here said, may be perceived the Reasons why the Prices of Goods daily vary at Market, where the Quantity of Money, and the Necessity of exchanging it against a certain Quantity of Goods, bring about these Alterations. The Demand of the Public to supply the Taste, Luxury and Manner of living of the Rich is that which occasions these Alterations [...]' (Cantillon, 1759:30).

⁶¹ In the *Dictionary* there is the following statement, out of sequence with the *Analysis* text: 'As the proprietor of land sets and farms out his land, so the proprietor of money farms out his money, to avoid the trouble of managing it himself, and turning undertaker' (Postlethwayt, 1751-5, I, 996). In the *Essai* there is not such a clear statement, but the connection between the returns on renting out land and lending money is made in a number of places (II, ix, 3-4, x, 14).

⁶² In the *Dictionary* the same views are found: 'the greater or lesser quantity of money is not the essential cause of the fall or rise of interest, according to the notion commonly received'; instead 'in [the] several channels of loans upon interest the price always rises and falls in proportion to the number of lenders and borrowers' (Postlethwayt, 1751-5, I, 996-7).

multiply itself or beget an interest in simple circulation' (*Essai* II, ix, 2; translation Higgs 1931:199).⁶³ From this one is tempted to conclude that, upon further reflection, Cantillon started to appreciate more fully the importance of loanable funds, instead of simply the amount of money in circulation, for the determination of interest rates.

5. Conclusion

When W. Stanley Jevons unearthed the *Essai sur la nature du Commerce en général* after a century of neglect, he marvelled at the remarkable completeness of his find: 'It is a systematic and connected treatise, going over in a concise manner nearly the whole field of economics, with the exception of taxation. It is thus, more than any other books I know, *the first treatise on economics*' (Jevons [1881] 1931: 342; emphasis in original). The systematic nature and high analytical quality of the *Essai*, which commentators have attested to ever since,⁶⁴ is indeed one of many mysteries that have always surrounded Richard Cantillon. How did this adventurous banker and speculator, this man of practice, arrive at his highly sophisticated, wide-ranging and largely coherent economic theories?

The fact that the *Essai* appeared to have been Cantillon's sole surviving theoretical economic work has made it difficult to address questions of the possible development of his ideas. Of course, the validity of the interpretations offered here relies to a large extent on a revisionist reading of Philip Cantillon's *The Analysis of Trade*. While this work has often been dismissed as an inferior product compared to the *Essai* of 1755, it has been argued here that the reason for this inferiority has not been correctly understood. It is particularly the comparison with fragments of Postlethwayt's *Universal Dictionary* which suggests that parts of the *Analysis* that differ from the *Essai* were indeed, as Philip claimed, 'taken chiefly from a Manuscript' authored by his cousin.

How can the evolution of Richard Cantillon's monetary theories be summed up? Generally speaking, the monetary views in the *Analysis* are not only more rudimentary compared to those found in the *Essai*, they are also closer to the commonly received opinions of the day. The changes in and further specifications of his monetary ideas give us an impression of the intellectual struggle Cantillon faced to emancipate himself from the views of (named) authorities like John Locke and (unnamed) adversaries like John Law. In the process Cantillon went far beyond the monetary views of any of his contemporaries in terms of coherence and analytical precision.

Of course David Hume made similar advances twenty years later. As we saw some of the Scotsman's views appear to show a greater resemblance with the 'early' ideas as found in the *Analysis*. As discussed in Section 2, the possibility that the Scotsman knew the *Essai* has been seriously considered by a number of commentators. By this they have meant a manuscript version of the French text that was subsequently published in 1755. But there is no strong reason why, *if* Hume knew a manuscript, this could not have been a draft that was more similar to the one on which Philip Cantillon was to base his *Analysis of Trade*. In favour of this possibility is that some notions in the *Analysis*, in particular not only the 'short term' but also the 'long term' effects of an increase in the money supply on prices and output, are strikingly similar to ones found in the *Political Discourses* (see Section 4.1).

⁶³ 'Quoique l'argent passe pour gages dans le troc, cependant il ne se multiplie point, & ne produit point un intérêt dans la simple circulation' (Cantillon 1755, II, ix, 2). The corresponding sentence in the Postlethwayt text reads: 'It does not appear that money begets an interest by passing for a pledge in barter, nor that its exchange for other commodities produces a great quantity of it in a state'.

⁶⁴ To give but a few examples, Schumpeter (1954: 217, n.4; 223) called the *Essai* a 'great work', that in some places was 'a brilliant performance'; Shackle (1982: 779) called it an 'imperishable master piece'; Blaug (1996b: 21) deemed it 'the most systematic, the most lucid, and at the same time the most original of all the statements of economic principles before the *Wealth of Nations*'; finally, the editors of the recent new English translation go so far as to call the French work 'one of the most important books ever published' (Saucier and Thornton, 2010:13).

However, with regards to the other topics considered, the price-specie flow mechanism and the determination of the interest rate (Sections 4.2. and 4.3) the similarities are often less striking. More importantly, in order for this possibility to be more than a fascinating speculation, one would want to see some external evidence. There does not appear to be any.

The more likely explanation is that the similarities between Hume's monetary theories and the views found in both the *Analysis* and the *Essai* are coincidental and probably due to the fact that both men developed their views in response to a similar body of received economic ideas. The extent to which some of Hume's ideas are closer to the *Analysis* is then merely a further indication of how the Irish banker eventually went beyond the elegantly stated but analytically often less sophisticated views of the Scottish philosopher. As long as no original manuscripts are discovered one cannot be certain about the intellectual process by which he arrived at his highly original monetary ideas. But, as I hope to have shown, a careful use of the different versions of his writings that were published in the 1750s can help us make some plausible conjectures.

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Appendix

The Analysis of Trade (1759)

[45] CHAP. XV. *Of the Ways and Means by which real Species Increase and Decrease in a Kingdom*

1 In all trading States where there are not Mines of Gold, or Silver, the only natural Way of acquiring these precious Metals, is by foreign Commerce; and this by a very few Words is explained, by the Acquisition of the surplus Value of our Exports, more than that of our Imports; this surplus Value must be paid us in Bullion, which brings what is called the general Ballance of Trade on our Side; and it is this Ballance which increases our real Specie, and consequently if this Ballance is against us, that is to say, if the Amount of what we import, exceeds that of what we export, the Excess must be paid in Bullion, and consequently will decrease our real Specie.

2 In order to illustrate this Matter, let us suppose, *France* in the State in which it was in the Year 1740, the Land tollerably well tilled, Rents well paid, but that the Calamity of a civil War broke out: the great Proprietors of Land would take some one Side, some [46] the other; all Ways and Means to raise Money by Mortgage and Credit would be practised, in order to support their respective Parties; the Land in general would be uncultivated; Manufacturers and Undertakers in Trade would be disconcerted and at a loss what to do, consequently very cautious how they engaged in Business; Countries, Towns, Cities, and Villages, would be pillaged and plundered. The Farmer could not bring to

The Universal Dictionary (1753)

[Entry 'Labour' II, 5] *Of the natural causes of the rise and decay of nations in wealth and power, with regard to the price of labour*

|| Let us suppose *France* in a middling state, the land pretty well cultivated, and the proprietors rents pretty well paid; if in these circumstances there happens a civil war, the proprietors will take party, some on one side and some on the other; they will engage and mortgage their estates, to lend money to the chief of their faction to support his quarrel, since, if the opposite chief prevails, their lands and estates will be confiscated, the undertakers will be disheartened, the country rifled, the magazines and warehouses plundered, and labour will be discouraged; so the land will not produce wherewithal to maintain the inhabitants, and to supply necessaries for the armies. The chiefs of the parties will be obliged to get stores and other

Market the Produce of his Land; in this unhappy Situation of Affairs, a Necessity must arise to import from foreign Countries the Materials necessary to support this domestic Contention; Money must be had for this Purpose, which would carry away the current Coin of the Country,

necessaries from the neighbouring states which are in peace, and consequently they will send money out of France to pay for them.

3 and consequently occasion a great Scarcity; many of the Inhabitants would quit the Country,

||This will gradually create a scarcity of money in France; besides that great sums will be buried, and that all barter in evaluation and credit will be diminished, the uncertainty of the event of war will hinder marriages and multiplication, and the mortality in the war will diminish the inhabitants.

4 the general Face of all Things would wear the Complexion of Blood, Confusion, Poverty, and Want; and the Country would be in Danger of being invaded by some of its ambitious Neighbours.

||In this situation France will be in a deplorable condition, and in danger of being oppressed by a foreign power. A general plague in France will occasion much the same mischiefs.

5 || Now let us suppose this Plague of civil Contention happily composed; the Consequence would naturally be, that the Landholders receiving little or no Money from [47] their Lands, would be necessitated to lett them at low Rents; and Money being scarce, the Land's Produce would be cheap, the Landlords would be obliged to live in a proportionable Compass; few or no foreign Goods would be imported, being too dear, with respect to the Poverty of the Country, where its own native Produce would be so cheap as to encourage foreign Nations, to come and purchase them: this would bring in a Flow of Money; the Cheapness of Rents to the Farmers would produce Plenty; the Country People finding easy Means of subsisting would be induced to marry, and bring up a Stock of Children; valuable Manufactures would be established; the Cheapness of Merchandize would introduce a large Demand for foreign Exportation, all Things being in Peace and Tranquillity, Money would insensibly increase in Circulation, and get into the Channels of Trade; the Inhabitants would become numerous, the Prices of all Things would, in proportion to the Increase of Money, insensibly augment;

||Now let us suppose the civil war ended, the proprietors who received little or no rent during the troubles, and whose lands lay waste and uncultivated, will now farm them out at a small rent, as well because of the scarcity of money, which makes all commodities cheap, as because they must encourage the farmers, in regard to the decrease of the inhabitants. As the rents are small, they will live without luxury, and consume little or no foreign commodities which will be dear, since more money circulates on this hypothesis in the neighbouring states, than in France. The labourers and peasants, by reason of the thinness of the inhabitants, will be encouraged, and, as they will consequently find it easy to subsist, they will breed up a great number of children, and so France will become again very populous. The scarcity of money in France will make their commodities so cheap, that they will export great quantities of them, particularly if valuable manufactures are set up in France. So that France will in this case get a yearly ballance, and fall naturally into the channels of trade. This will gradually bring great sums of money into France, where it's plenty will begin to raise the price of all things, and where several undertakers will have amassed good sums of money.

- 6 Merchants and Tradesmen would by their Savings grow rich; the Landholders would increase their Rents, Luxury and Profusion would soon take the Place of Oeconomy and Industry; the landed Gentry, [48] who before lived with great Care and Parsimony, would now keep great Tables well covered with Delicacies; Merchants and Traders becoming rich, would launch out into Expençe, and would consume more of the Land's Produce than before.
- || Now, since the prices of all things are risen insensibly, the proprietors will raise the price of their estates, the increase of the inhabitants will make them offer to work for less sustenance than at first; and, as there is plenty of money in circulation, foreign commodities will come at a cheap price, the exportation of commodities will slacken because of their dearness, and the neighbouring nations will be able to set up cheaper manufactures; and, as the business decreases in France, several French tradesmen will go into foreign parts, where there is work for them, and improve the manufactures there. The quantities of money amassed by the French undertakers in the course of their business, while France gained the ballance of trade, will encourage to spend more money, and consume more foreign commodities, than usual, as they are now cheaper; and the proprietors, with their additional rent, will do the same, and so luxury will come into fashion.
- 7 And in this Situation of Luxury and Expençe, *France* would be looked upon by its Neighbours in the highest Point of Power and Riches; and the Country possessing more Money than its Neighbours, every thing would proportionably be dearer; Foreigners would cease buying, and would attempt supplying themselves by their own Manufactures; the Channels of Commerce would be turned into different Courses; the Increase of Coin would increase a Demand for more than the Land could produce; and consequently this Demand must be supplied by foreign Produce, which would carry the Ballance of Trade against *France*; Manufacturers, Artizans and Merchants would quit the Kingdom, and in a Course of Years the Nation would be drained of all its Coin. Luxury is seldom introduced into a Country or Community, but when it is believed that it can always be supported; but once begun, People generally ruin themselves before they are prevailed upon to quit it.
- In the beginning of this turn of affairs, the balance of trade will be pretty equal, *France* being not yet quite beaten out of the channels of trade, but only beginning to lose some branches of it. In this situation *France* is in it's acmé, or highest state of power, having more ready money than the neighbouring states, and consequently the king can raise greater sums from his subjects than at any time. But, as the increase of expence and luxury has taken root, 'tis remarkable those who begin it seldom lay it aside till they are undone; this will cause a continuance of the expence of foreign commodities, and, the exportation slackening and decreasing in proportion, the ballance of trade will turn against *France*, and their money will be sent out annually in payment of the surplus of those foreign commodities they consume: and thus *France* will decline in it's wealth and power, by the decrease of the quantity of actual money, and the thinning of it's inhabitants, which it's luxury and decay of trade will necessarily occasion.

- 8 || This example of France is historical. After the composing of the civil war there about 1652, the prime minister of the finances, Mr Colbert, set up and encouraged fine manufactures there, and France lived several years without luxury, and few coaches were seen at Paris.
- 9 || They gained greatly in the balance of trade, and Lewis the XIVth grew very powerful: money grew very plenty, and about 1680, the ballance of trade grew pretty equal, and luxury began; and then it would have naturally turned against France, which must have necessarily declined in process of time, if that operation had not been hastened by the expulsion of the Hugonots [sic], which, by the money and inhabitants sent out of the kingdom, hastened the decline of France; which nevertheless did not happen visibly, till about the year 1715, when she was in peace.
- 10 [49] || By these Explanations, the Causes which enrich and impoverish trading Nations are easily traced. Kingdoms after public Calamities, provided they are but tolerably well governed and protected, grow rapidly wealthy; those who survive the Calamities of their Country become wise sober and industrious. Had the Calamities introduced by the Schemes of the Year 1720 been wisely applied, and Labour and Industry eased of its oppressive Taxes, the Community in general had long since been restored to its Senses, from the Madness and Folly which the Schemes of that Year possessed us with, and still seem to govern us by; and it had not been verified what was then introduced (to our Scandal and Reproach) as a Maxim, that every Man in Great Britain was to be purchased for his Price. The learned Mr. Hume observes, that Mankind are such Dupes, that notwithstanding any violent Shock to the Community, yet it would not be long before Credit would again revive; and though Men are commonly governed by what they have seen more than by what they foresee; yet Promises, fair Appearances with the Allurements of Gain, are powerful Temptations which few are able to resist.
- || The rise and decline of all other kingdoms, naturally and abstractedly from wars and conquests, are owing to causes of the like nature; and, when a nation gets a great plenty of money, and increases exorbitantly in it's paper circulation, it naturally tends to decline, by the dearness that happens of land, labour, and commodities; and the greatest prudence of a legislator seems to be, when money and paper circulation are rising to that plenty, to take methods to clog their circulation, and, if possible, to lock up great sums of money gradually and insensibly, to encourage the use of plate, and take any other methods than those that naturally and commonly happen, which is to send it again to foreign parts, in payment of jewels, pictures and other ornaments of luxury. The next [6] essential thing to be done, also, is the gradual annihilation of their paper debts, and the taxes thereby occasioned. If this could be effected, a state would continue, by a reasonable price of it's commodities, to keep up the channels of trade and exportation; but, where things go on in their natural course, the too great plenty of money, or paper credit, by enhancing the price of things, gives other rival nations an opportunity to take the trade into their hands, and to get the money along with it.