

RICARDO CONFERENCE: ABSTRACTS

Paper 1

Sismondi on Paper Money, Convertibility and Public Debt (1810): or, A Missed (?) Opportunity to Join the Bullionist Controversy

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This contribution intends to discuss Sismondi's early monetary theory (1803-1815), the many parallels with some of Ricardo's later main contribution and his attempt to connect it with his vision of the social contract. Besides some references to Sismondi's vast correspondence, this article is centred on the monetary chapters of his 1803 *Richesse commerciale* (Book I, chapters V and VI), his little-studied 1810 article on paper-money convertibility and chapter V, *Of Money*, of his entry "Political Economy" written in 1817 for the *Edinburgh Encyclopaedia*.

After some brief considerations on Sismondi's early publications around *Richesse commerciale* an attempt is made to contextualise his monetary thought in relation with Napoleonic war financing in Continental Europe. In connection with his Smithian source of inspiration, Sismondi's theoretical framework is then presented and discussed in connection with Austrian/Russian public debts and paper money (and his role in 1808 as economic adviser to both the Austrian emperor and his minister of finance). Connections with the upcoming flood of literature in England on the bullion controversy are offered and questions are asked:

- i) Why Sismondi did not take part in a debate he partly anticipated in his 1808/1810 article (written 18 months before Ricardo's first edition of *The High Price of Bullion* and well before the *Proposals...*).
- ii) How he dealt theoretically with the Austrian 1797 suspension of coin and bullion convertibility.
- iii) How he urged a prompt return to such a convertibility based on a discussion of the comparative states of Austrian/Continental and English banking systems (thanks to his banking system England could afford a Ricardian paper money scheme which was out of reach for Austria).

Remarks are then offered on the author's opinion on the progressive emergence in England of a successful 'art of public borrowing' according to which the people who provided the money also controlled the government (the so-called Anglo-Dutch model). Finally, some reflections are offered on the explicit connection Sismondi establishes between the (ab-)use of inconvertible paper money and the partial collapse of the social contract initiated by any government using it.

Paper 2

Some Notes on Ricardo's Market and Natural Rates of Interest

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This paper critically discusses one of the main accepted results of Ricardo's theory of money, that is the convergence process of the market rate of interest to the natural rate. Following Green's pioneer work (1992) about the quantity theory of money in classical political economy, we maintain that some logical inconsistencies affect Ricardo's representation of the tendency of the market rate of interest to the natural rate. It will be argued that Ricardo appears to set the convergence to the natural interest rate in the context of an inconvertible

fiat money system, in which the concept of a natural *ratio* of the quantity of money to prices (for given velocity of circulation of money and volume of transactions) is consistent with different absolute levels of the latter.

According to Ricardo, exogenous changes in the supply of, or demand for, money generate short-period changes of the money-prices ratio and the market interest rate, and permanent changes in the price level play the role of bringing back both the money-prices ratio and the interest rate to their natural values (the natural rate of interest being taken as a fraction of the natural profit rate).

We will try to show that, particularly with regard to the case of an increase in the money supply, the mechanism envisaged by Ricardo is not free from some critical considerations about its internal coherence if one takes into due account what he conceives to be the specific inducement for the public to borrow a larger quantity of money at a lower interest rate – namely, an above normal difference between profit rate and interest rate. Indeed, the increase in the price level does not appear to be sufficient to bring the interest rate back to the natural rate, as it just serves to produce an increase in the aggregate need for money equal to the increased borrowing of money, while the urge to the latter is independently determined by the difference mentioned above. In other words, as long as prices do not rise, the increased borrowing would in fact exceed the monetary value of transactions, and a higher price level is therefore what adjusts the latter to the increased amount of money in circulation. Precisely for that reason, however, the increase in the price level, though reestablishing the natural money-prices ratio, would not push the market interest rate up to the natural rate.

Paper 3

'Ricardo, Fisher, Patinkin and Who? The cNtribution of Alfred Russel Wallace

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Contributions from the evolutionary biologist, Alfred Russel Wallace, to monetary economics were recognised by Irving Fisher (1920 and 1934) and Patinkin (1993). This paper compares Wallace's sketchy proposals of 1898 with those of Ricardo (1816). Wallace is, of course, best known for his co-discovery, with Darwin, of the principle of natural selection but he also campaigned on land nationalisation and other issues.

I select three aspects of Ricardo's *Proposals*. The first is Ricardo's presumption that eventually the quantity of paper money must depend on the precious metals (though his mechanism attempts to ensure that the variability of the note issue is minimised). Wallace, on the other hand, rather splendidly denounces gold in the manner of Keynes, as a 'barbarous relic' and advocates a paper money not based on gold. On what, then, is it to be based?

This requires us to take a step back and look at a second aspect of the *Proposals*. Ricardo's assertion is, in effect, that an 'objective' standard is transparently impossible: 'commodities generally, then, can never become a standard to regulate the quantity and value of money'. Wallace was not, of course, the first to suggest price index numbers. But it was for his rough empirical work that Fisher dedicated *Stabilising the Dollar* to him. Wallace's suggestion was for a weighted price index series with the weights depending on average household expenditures over a rolling six or seven year period. He did not, of course, have data for household expenditures: that is why he ventured his calculations 'at a guess'.

A third aspect of the *Proposals* was Ricardo's policy target. This would be to adjust the note issue to the requirements of trade without being destabilised by the price of bullion (or silver or whatever). Under Wallace's proposal the target of policy would be simple: price stability (again subject to the requirements of trade).

A fourth aspect of the *Proposals* was that monetary policy should operate in the national interest rather than in the interest of the Bank's directors. Under Wallace's proposal an independent commission would be set up with the injunction to vary the note issue such that his own price index would be approximately stable. The commission would have a staff of clerks sufficient to have regular returns made week by week. It would issue more notes when prices were falling and call in notes when prices were rising. That is why Patinkin has asserted that Wallace was the true pioneer of Chicago monetarism! This combination of a monetary target plus an independent body charged with meeting it has a surprisingly modern ring. The main difference is that Wallace had no interest in open market operations as he was in any case opposed to long-term government debt. But that is another story.

I suggest that it might be worth including Wallace in a present-day discussion of Ricardo as, although their prescriptions were very different, their interests substantially intersected. (References to be included in paper.)

Paper 4

David Ricardo, Alexander M Lindsay and J M Keynes on India Gold Exchange Standard

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The Indian monetary system had already attracted the attention of nineteenth-century economists like Léon Walras (1887) and Alfred Marshall (1899). Nevertheless one of the most influential economists for the monetary debate in India was David Ricardo (1816, 1821). In this article we will be analysing the evolution and establishment of the gold exchange standard in India through the work of three economists: David Ricardo (1772-1823), Alexander Martin Lindsay (1844-1906), and J M Keynes (1883-1946).

The start point is Ricardo's *Proposals for an Economical and Secure Currency*, published in 1816, and his 'Ingot Plan', which influenced A M Lindsay who supported the instauration of a gold exchange standard in India from 1876 to 1898, in particular before the Fowler Committee of 1898 on Indian Currency. Indeed, although Lindsay and Keynes can be linked by Ricardo's influence and by their advocacy for India's freedom to choose a Gold Exchange Standard, Lindsay and Keynes eventually differed in their subsequent theoretical evolution. We will compare these three authors' diagnosis of the Indian monetary system and their respective contributions to the formulation of the Gold Exchange Standard, which became dominant after the Genoa Conference of 1922.

Key words: Ricardo, Lindsay, Keynes, Currency, Gold-Exchange Standard, India.

Classification J.E.L.: B19, E42, E50, F54, N15.

Paper 5

John Barton on Population and Colonisation

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This paper examines the economic views of John Barton (1789-1852) on population and colonisation in the first half of the nineteenth century in England. Barton studied the overpopulation of the period in England and proposed colonisation as the only remedy for the problem in his pamphlet, *A Statement of the Consequences likely to Ensnue from Our Growing Excess of Population, if not remedied by Colonisation* (hereafter, *Colonisation*) published in 1830. First, Barton's arguments in his earlier two pamphlets – *Observations on the circumstances which influence the condition of the labouring classes of society* (hereafter, *Observations*) published in 1817 and *An Inquiry into the Causes of the Progressive Depreciation of Agricultural Labour in Modern Times* (hereafter, *Agricultural labour*) published in 1820 – on the causes of the rapid population growth since the second half of the eighteenth century in England are described.

Barton argues primarily in *Observations* that the rise in prices resulting from the inflow of gold from the Central and South American countries since the first half of the eighteenth century was not followed by a proportional rise in money wages. Barton continues that such a decrease in real wages occasioned the rise in the ratio of circulating capital to fixed capital and the expansion of employment opportunities. According to Barton, the fall in real wages and the expansion of employment opportunities, and not the imprudence incurred by the poor laws, engendered the rapid population growth of the period. Barton also particularly asserts in *Agricultural Labour* that it is indigence that deprives labourers of prudence for the future, and accordingly allowances were effective for the relief of the poor. Second, Barton's counter-arguments against the proposals for the expansion of production and importation of corn as a remedy for the over-population are presented. In *Colonisation*, Barton argues that the domestic expansion of corn production would not be enough for the maintenance of the growing population, even if the technical progress in agriculture were taken into account. Barton dismisses the immigration to domestic wasteland in *Colonisation*, though he proposed it as the effective remedy for overpopulation in *Observations*. Barton also asserts that increasing reliance on corn imports would be unsafe especially at the time of bad harvests.

Thus, Barton concludes that colonisation is the sole remedy for over population. Barton's refutation of the opposing argument to colonisation is examined as well, referring to Malthus' argument that colonisation would encourage labourers' imprudence. Proposals for raising and repaying the cost of colonisation by Barton too are reviewed. Finally, Barton's unique view on the production and distribution underlying his views on population and colonisation is indicative of the contrast with Ricardo's view on production and distribution. Barton criticises the view in political economy at the time that the accumulation of capital and the expansion of production would result in general benefit. Barton instead argues that the redistribution in favour of labourers leads to an improvement in their habits, living standards, and happiness.

Paper 6

Ricardo's Proposals in Light of the Euro Crisis

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The debate in which Ricardo's *Proposals for an Economical and Secure Currency* appeared concerned multiple and overlapping fundamental relationships in the workings of the economy. Finding the causation of economic ills and attempting to remedy them was as complicated in the Bullionist controversy of the early 1800s as it is in the current euro crisis. This paper contends that important

aspects of the two periods can be revealed by referring to different understandings of external adjustment as conceived of under commodity and credit theories of money.

The attention Ricardo placed on the responsibility and role of the central bank in managing the economic affairs of a country is well directed. However this paper sees Ricardo's Plan as part of a broader current in which monetary mismanagement is identified as the source of economic ills and thus attempts to remedy them are through better monetary administration.

This paper seeks to examine the degree to which Ricardo viewed the problem of the depreciation of the pound and domestic inflation as problems solvable via domestic policy. It will be argued that this view could arise out of an understanding that a gold standard provides automatic adjustments which result in changes to relative prices leading to both internal and external balance. The frequent crises experienced after the Resumption indicated however that the gold standard in and of itself could not fulfil the promises its proponents claimed it could. Certain and fixed monetary arrangements could not resolve capitalism's problems through market forces.

The euro crisis brings to the fore several interrelated issues that echo the concerns in Ricardo's *Proposals*. Europe today is confronting similar questions: could member state's economic ills be solved through a change in the monetary arrangement and through what adjustment mechanism would that occur? What could be learned from Ricardo's identification of the different needs of external and domestic circulation?

The scholarship on the underlying causes of the euro crisis identifies balance of payments imbalances as a key element. The ways in which balance of payments adjustments are theorised under commodity and credit theories of money remain insufficiently disentangled and this paper is an attempt to contribute to this discussion.

The main theoretical contribution this paper makes is that the problem of decreasing exchanges that Britain faced in the early 1800s is markedly different in a system whose reserves are endogenously created as credit not backed by any commodity or real bill. Yet, Ricardo's external adjustment process envisioned under a commodity money system lingers in today's scholarship.

By expanding on the recent developments in the theoretical and empirical literature which discuss how focusing on current accounts shields the true position of a country in international transactions such as borrowing and lending, this paper brings to the fore similar concerns to those faced in the early nineteenth century in a setting whose credit system has dramatically changed how interconnected economies behave.

Paper 7

The Reception of Ricardo's Theory of Money in Marxism

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Ricardo's monetary theory was the part of the Ricardian legacy which Marx, and following him, many Marxists criticised most of all. According to Marx, '...Ricardo's theory of money is as completely refuted as its false assumptions that the bank controls the quantity of notes in circulation, and that the quantity of means of circulation determines prices, whereas on the contrary prices determine the quantity of means of circulation etc.' (Marx, 1973) It was not the result of misunderstanding from Marx's part. As is known in the 1850s, upon settling in London, he, among

the vast bulk of economic literature, studied the works of Smith and Ricardo 'with exceptional thoroughness' (Marx and Engels, 1968, VII).

Marxian view corresponded to a widespread interpretation, where Ricardo's theory of money was seen as an alien to his theory of value. But this established view has been challenged (see, e.g., Takenaga, 2003), and, generally, since the edition of Ricardo's *Works* of there was a number of studies that considered Ricardo's theory of value in connection with his theory of value and distribution. Paradoxically enough, in Marxism (specifically in its Soviet version) Marx's own theory of money was not regarded as a contradictory to his theory of value, rather it was disregarded (even if it had had an impact on the Soviet monetary policy). However, according to Isaak Rubin, who was among a few Marxists paying serious attention to Marxian monetary analysis, in Marx the theory of money was not an occasional supplement to the theory of value, but its direct continuation towards the most developed form (see Rubin, 2011).

If theories of money in both authors were connected to their respective theories of value and constituted indispensable elements of their analytical systems, then the critique of Ricardo's theory of money by Marx (and Marxists) may allow for distinguishing more general differences in their approaches to value and distribution, and for clarifying Ricardo's 'quantity' and Marx's 'labour' monetary theories. The paper is an approach to this task, and its scope is narrower. I shall rely on Rubin's interpretation of Marx's theory of money as presented in his recently published manuscript (Rubin, 2011) in order to highlight the differences in understanding the notion of measure of value, and the role of gold as an anchor of price fluctuations.

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Paper 8

Ricardo's Theory of International Trade and Capital Accumulation

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The core of Ricardo's theory exists in the capital accumulation. Though Malthus directly contrasts food with population, Ricardo takes food and population into the dynamics of capital accumulation. In Ricardo's economy, the land representing nature is the key, which restricts the economy in the progress of capital accumulation. The technical advance cannot overcome the diminishing returns in agriculture by restriction of nature. While Malthus Ricardo and J S Mill assume the diminishing returns in agriculture, Adam Smith assumes the increasing returns. Hence, in Ricardo's economy, if capital accumulation with augmentation of population accelerates cultivating inferior lands of low productivity, the diminishing return in agriculture finally leads to the stationary state.

In Ricardo's economy it is needed to prevent wages rising, since profit as the rest after deducting wages is the fund for capital accumulation. Ricardo regarded agricultural improvements and importation of cheaper corn important. Agricultural improvements temporally prevent wages rising, however the society eventually reaches to the stationary state of zero profit. Ricardo would have considered that agricultural improvements cannot overcome the restriction of nature. He mentions in his *Funding System* (1820) another measure checking the raise of wages. He insists that the stationary state of zero profit is endlessly postponed by the importation of food from abroad. The

importation of cheaper food is supposed only to have come from the fact that England had the comparative advantage for manufactured goods. In the case of Ricardo, which product has the comparative advantage is directly connected with the economic growth of the country. A country whose comparative advantage lies in manufactured goods grows rapidly, while a country whose advantage in agricultural products grows slowly. The uneven development between the corn-importing country and the exporting one occurs.

Ricardo did not assume the perfect specialisation in manufacture in *On Protection to Agriculture* (1822). The best way to express Ricardo's intention is the two-sector model of agriculture and manufacture. In the model, the agricultural industry has the two factors of labour and land, while the manufacture has one factor of labour. Moreover, the productivity of agriculture is decreasing by the law of diminishing returns, while the productivity of manufacture using only labour is constant. In that case the marginal rate of transformation grows large and the production possibility frontier is not linear but concave against the origin. Moreover, Ricardo considers the labour theory of value to hold true within the country, but not abroad. We make a brief examination of Ricardo's two-sector model.

The objective of chapter 7 'On Foreign Trade' is to examine the general theory of free trade. Therefore, he hardly refers to corn. The rates of profit within country become equal, while those among countries do not, because the movements of capital among countries do not occur. After all, factor prices, such as wage and profit, are determined in the capital accumulation within the country. Both depend on domestic agricultural productivity, namely the diminishing returns restricted by nature.

Paper 9

Ricardo's Plan for a Monetary Reform – Payment in Bullion and Establishment of a National Bank
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All along his relatively short career as an economist, David Ricardo involved himself with monetary matters of the time belonging to the later phase of the bank restriction period. The paper money issued by the Bank of England, exempted from the obligation of cash payment, was continuing to depreciate, with rise in the prices of commodities represented by that of bullion and fall in the foreign exchange of pound sterling.

As a polemist belonging to the so-called bullionist school, Ricardo claimed the resumption of cash payment on the basis of his proper analysis of the contemporary English monetary economy. At the same time, he put forward a plan for a monetary system conceived 'to attain the most perfect state' of currency. This plan became known as the 'Ricardo's ingot plan' by the renowned article of R Bonar with the same title published in 1923 to pay tribute to the centenary from the death of its author. Indeed, a plan containing an idea of payment in bullion instead of in cash was proposed by Ricardo in 1811 in the appendix to the fourth edition of his first successful publication *High Price of Bullion etc.* For him this plan was decisive for a monetary system assuring the stability of the value of currency without needless waist of cost for that purpose. So he repeatedly tried to develop the idea for its realization. One of the most important of such effort of his is *Proposals for an economical and secure currency...* published in 1816, just 200 years ago now.

This pamphlet was written at the request of P Grenfell intending to criticise the management of the Bank of England. Ricardo caught this occasion to develop and diffuse widely his plan for a monetary reform, with the result that the part of this Pamphlet devoted to the request from Grenfell came in the second place. But this does not mean that Ricardo treated the subject insufficiently or

negligently, because he completely agreed with the view of Grenfell and voluntarily set out to attack the Bank. While his plan of payment in bullion was conceived as a way of resumption of payment *by the Bank*, in a brief sketch put just at the end of the second part of the Pamphlet he went so far as to replace the Bank with some State issuing organ.

In this way the idea of payment in bullion and that of establishment of a new issuing entity came to coexist in his idea from the time of writing of the Pamphlet and they were not at all incompatible for him. Hence there can be no question of choice between them nor passage from the one to the other. But after the first idea became incorporated into the Law of Peel in 1819 and was put in 'experiment', he seems to have been obliged to certain concessions to the Bank and also to the habit of people in using money. After such 'experiment' the original idea of Ricardo on bullion payment was somewhat modified and unified in his plan of establishment of a national bank, which took shape during the last days of his life.

Paper 10

Money and Value in Ricardo: a Pasinetti-Based Formalisation

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Scholars of Ricardo have tended to divide into two camps: those that examine his theories of value and distribution and those that focus on monetary issues. On the one hand we have the free trade Ricardo of the Corn Law debates, on the other Ricardo the great reformer of the Bank of England. Furthermore, it has been thought by many that after his initial interest Ricardo turned away from monetary issues once issues of value and distribution had caught his attention. Much has been done to remedy this false impression, but the divide is still prevalent in the Ricardian literature.

1816 is a key year in the evolution of these two dimensions of Ricardo's thought. This was the year in which Ricardo published his *Proposals for an Economical and Secure Currency*, with a sophisticated analysis of how the issuing of paper money can be reconciled with convertibility to gold. Also that year, in drafting *On the Principles of Political Economy and Taxation*, Ricardo decides upon the labour theory of value as the cornerstone of his treatment of production and distribution. No agreement has been reached in the literature on if and how Ricardo's value theory is relevant to his monetary analysis; and related to this issue scholars are also divided on the role of the quantity theory of money in Ricardo's system. Was Ricardo an proponent of orthodox monetary theory, based on barter relations – as in his treatment of Say's law of markets – or did he develop the foundations of endogenous money, as represented in the classical law of monetary circulation?

To contribute to an understanding of these different dimensions in Ricardo's thought, an abstract closed economy system is developed here that quantifies both value and money. This is attempted by adapting the classical model of pure labour developed by Pasinetti (1993). With labour as the sole factor of production, this system offers a simplified starting point for formally exploring how aspects of Ricardo's monetary analysis, as developed in the *Proposal*, might fit with his theories of value and distribution. In particular should the value of bullion, which Ricardo proposes as the anchor for issuing paper money, be measured using labour embodied quantities?

The paper starts by introducing the Pasinetti pure labour model as a vehicle for formalising some aspects of Ricardo's theories of value and distribution. In the second part, the role money is introduced, with a focus on gold bullion and convertible paper. In the final part some conclusions are suggested.

Paper 11

Ricardo on Poverty and Poor Relief: A Comparison with Malthus's View

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Ricardo's main subject was the distribution of the national product under the process of economic development, but he did not neglect the problem of poverty. He accepted the conclusion of Malthus on the effects of the Poor Laws to increase poverty instead of reducing it, and the necessity of the repeal of the Poor Laws. But he emphasised the necessity of gradual abolition of them.

He expressed his basic view on poverty in his *Principles*, but he showed his view on the subject more in detail and more specifically in his correspondence with Huges Trower on savings banks. He recognised the important use of savings banks to inculcate in the minds of the labourers prudence, spirit of independence, and forethought which he regarded essential conditions for the repeal of the Poor Laws and improvement of the living conditions of the labourers.

Charity must provide for the poverty which might remain after the repeal of the Poor Laws. In fact, Ricardo was very active in voluntary activities contributing to the establishment and management of savings banks and also he ran schools for children of the poor. Poverty was not a minor problem for Ricardo. We examine in detail his correspondence with Trower on savings banks and make a comparison of his view on poverty with that of Malthus and point out some important differences, which reflect the difference between the economic theories they had in mind.

Paper 12

Thornton versus Ricardo: Two Alternative Perspectives on Money and Trade Imbalances

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Hicks (1967) identifies Henry Thornton's *An Enquiry into the Nature of the Paper Credit of Great Britain* and David Ricardo's *The High Price of Bullion* as the foundational texts of 'two strands of classical economics' (p. 167) with regard to their view on money. This paper aims to build on and transcend beyond Hicks in linking Thornton's and Ricardo's theories of money both to their respective views on the 'natural' state of society and their theories of trade.

Ricardo suggests a natural state of barter where production is supplied for immediate consumption and thereby creates its own demand. Metallic money helps to make exchanges less costly than would have happened anyways. The value of metallic money is equalised internationally by the export of money to those countries where it is relatively dear. Such exports do not imply unfavourable trade. Paper money shall work in the same way as metallic money. This can be guaranteed by convertibility. If, however, more paper money is issued than would have circulated in terms of metallic money it leads to inflation and the result is trade that is in fact unfavourable. Thornton on the other hand envisions the barter economy itself as a monetary economy in the sense that it must already be built on credit relations necessary to facilitate exchange. There can be no commerce without credit relations. There can be no exchange economy without money. Hence, for Thornton money cannot be too scarce or too abundant relative to some objective standard. If trade is imbalanced it is the result of shocks to the real economy and not of monetary policy. Instead, trade imbalances can be overcome by expanding the quantity of money to promote the productive forces of the economy.

In sum, Ricardo lays the foundations for both monetary orthodoxy and orthodox trade theory. As long as banks do not over-issue money, free trade can only be beneficial for any country. Only if banks not bound to the rule of convertibility over-issue money, exchange becomes unfavourable

while inflation can only do harm and no good. In contrast, Thornton prefigures countercyclical monetary policy, the rejection of Say's Law and the possibility of persistent unfavourable free trade. A country can engage in unfavourable trade out of necessity. In such a situation, expansionary monetary policy can help to revive the domestic forces of production. If an economy has permanently inferior productive forces, it might engage permanently in unfavourable trade, which must result in high levels of foreign debt, persistent global imbalances and debt crisis. Both Ricardo's and Thornton's views on money and trade are alive in the debate on the present crisis. They still provide us with two alternative strands to think both about the causes as well as the cures of trade imbalances and financial crisis.

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