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*Sir James Steuart on the origins of the  
exchange economy*

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**Keywords:** James Steuart, development, institutions,  
subordination, economic system.

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**Department of Economics**

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## Sir James Steuart on the origins of the exchange economy<sup>†</sup>

*José M. Menudo\**

### Abstracts

This paper examines James Steuart's explanation of the emergence of the exchange economy. An initial hypothesis holds the decisive influence of a plan designed and implemented by merchants. Our proposal evokes the importance, acknowledged by Steuart, of the construction of institutions, involving designs aimed at achieving self-interest purposes. It is argued that "commercial" subordination explains how individuals become dependent on a new institutional organisation. Finally, we conclude that *Political Economy* is a science of the artificial that seeks to understand the functioning of non-natural mechanisms and to create instruments that the statesman adapts to the needs and of objectives individuals.

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It is an animal put up to fatten, the more he eats the sooner he is fit for slaughter. When their taste for superfluity is fully formed, when the relish for their former simplicity is sophisticated, poisoned, and obliterated, then they are surely in the fetters of the traders, and the deeper they go, the less possibility there is of their getting out. Stuart (1767): I, 249

## 1. Introduction

In a paragraph of his *Principles of Political Economy* (1767), Sir James Steuart indicates that the commercial society has its origins in a plan designed and implemented by merchants.<sup>1</sup> This statement opposes the approach revealed by Adam Smith nine years later, and adopted by classic Economics to explain the state of commerce as a consequence of human nature and a long period of historical evolution.<sup>2</sup> It was not an isolated comment. Steuart dedicated two full chapters to showing this process of building institutions and their role in the origin of the market economy.

The literature on the appearance of the “commercial nation” in Sir James Steuart’s work is of high quality and a variety of approaches are used. On the basis of the way in which the ideas of the baron of Montesquieu were received by figures from the Scottish Enlightenment,<sup>3</sup> Andrew Skinner (1993) highlights Steuart’s singularity by approaching the problems of moving between stages or the consequences of economic change, while Ronald Meek (1967) indicates his originality by linking the development of production with a historical and evolutionary approach.<sup>4</sup> Furthermore, Noboru Kobayashi (1967), Michael Perelman (2000) and William McCulloch (2011) present Steuart’s theory as the description of a primitive process of accumulating capital, which led Karl Marx to

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<sup>1</sup> Steuart (1767): I, 238.

<sup>2</sup> “This division of labour, from which so many advantages are derived, is not originally the effect of any human wisdom, which foresees and intends that general opulence to which it gives occasion. It is the necessary, though very slow and gradual consequence of a certain propensity in human nature which has in view no such extensive utility; the propensity to truck, barter, and exchange one thing for another”: Smith (1776): 25.

<sup>3</sup> A comparative approach when explaining a considerable part of the evolution of political and social life through economic development (Skinner, 1963).

<sup>4</sup> For a comparison of authors from the Scottish Enlightenment on the birth of the commercial society, see Skinner (1993) and Brewer (1997).

recognise his historical sensitivity. Ruhdan Doujon (1994), Rédouane Taouil (1995) and Aida Ramos (2011) separate Steuart from the Scottish Historical School to present his thought on economic development from the elements of the paradigm of civic humanism, such as the emphasis on frugality or luxury. The role of the project devised by the merchants has not been highlighted by the literature. Our contribution consists of approaching the theory of the emergence of the exchange economy from this different and at the same time essential element in all Steuart's discourse. Therefore, it is important to point out that the term project or plan in *Principles of Political Economy* – e.g., of political economy, of merchants – refers to a design aimed at a specific use, illustrated with references to a clock, a boat or a cradle. It has no relation with central planning because society cannot be planned according to Steuart.

This article is divided into the three parts used by Steuart in his exposition. Firstly, we analyse the historical phases that preceded commercial society. These enabled Steuart to present a society made up of hierarchical relationships and slowly modified dependence links, from the rigid subordination of feudalism to the high interdependency of a divided modern society. We will see that this is a fundamental matter because the emergence of the commercial nation would need, according to Steuart, to explain how individuals become dependent on and subordinate to this new institutional organisation. The next section explores the emergence and implementation of the “system of trade and commerce”. Steuart's description of an artificial construction process – i.e., with no link to a natural order – giving rise to the “commercial nation” is the first contribution made by this article. Firstly, Steuart defines the exchange economy from the change that a new institutional organisation implies for the relationship between producer and consumer, as opposed to a form of production caused by the division of labour in Adam Smith. Secondly, he presents his institutional construction as a design by merchants which manages to link individuals via a new type of dependence called “commercial”. Now producers and consumers are subordinate to the “public market” that provides individuals with both merchandises and money to acquire them. The establishment of the market economy gives rise to a “commercial nation” and is conditioned by three elements that can render its appearance impossible: (i) the natural disadvantages to produce and distribute as an economic variable; (ii) tyranny as a political variable; and (iii) the division of classes into worker and landowner as a social variable. The third section refers to the consequences that the market economy implies for the government. Here it is central to note the importance placed by Steuart on the emergence of institutions as a process as unexpected as the consequences of individual actions. Thus, Christianity or the discovery of the Indies are events that affect society and enable new institutions to modify the political and economic systems. The statesman must adapt his executive capacity to the complexity of the greater interdependence of an increasingly divided society. Steuart's proposal is an institution, known as a “plan of political economy”, which enables the market economy to be established without violent revolts and with an improvement of the conditions of all individuals. It is precisely this question that is the last contribution of this work, because it allows us to define Steuart's Political Economy as a science of the artificial; a discipline that seeks to understand the functioning of these non-natural mechanisms and to create instruments that the statesman adapts to the needs and objectives of individuals. This design idea is used by Herbert Simon in *Sciences of the*

*Artificial* (1996) and taken up again by Sarasvathy (2003) to describe the content of economic and business sciences.

## 2. The great alteration in Europe

Steuart endeavours to explain a historical process that took place in the previous 300 years in Europe. There is no perception of growth in production, but an increase in trade and manufacture.<sup>5</sup> Some authors from the 18<sup>th</sup> century saw a possible reduction in the population and production but Steuart, among others, observes the expansion of the European economies. To explain this fact he rejects theories based on an isolated scenario that puts forward principles that are applicable to all times and places.<sup>6</sup> For Steuart, the key is the historical process because the elements or causes explaining modern society can be found there, enabling us to go to different countries and periods to assess their degree of performance.<sup>7</sup> He does not use a history of the progress of humanity in economic terms as a reference because the connotation of progress or development of A.-R.-J. Turgot, as a consequence of this historical process, does not exist in *Principles of Political Economy*.<sup>8</sup> The concepts used by David Hume in his essay on luxury – e.g., the class division, the intersection of industry and agriculture, the dependence on or economic consequences of luxury goods – make the next scene more plausible as a starting point.

In rude unpolished nations, where the arts are neglected, all labour is bestowed on the cultivation of the ground; and the whole society is divided into two classes, proprietors of land, and their vassals or tenants. The latter are necessarily dependent, and fitted for slavery and subjection; especially where they possess no riches, and are not valued for their knowledge in agriculture; as must always be the case where the arts are neglected. The former naturally erect themselves into petty tyrants; and must either submit to an absolute master, for the sake of peace and order; or if they will preserve their independency, like the ancient barons, they must fall into feuds and contests among themselves, and throw the whole society into such confusion, as is perhaps worse than the most despotic government. But where luxury nourishes commerce and industry, the peasants, by a proper cultivation of the land, become rich and independent; while the tradesmen and merchants acquire a

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<sup>5</sup> “Bounds of all the European Kingdoms” is the expression used by Hume and “the great alteration in the affairs of Europe” in the case of Steuart.

<sup>6</sup> His criticism of arguments based on the “imaginary” laws of the natural state is frequent. See Steuart (1767), I: 320.

<sup>7</sup> Skinner (1993) establishes a clear distinction between Adam Smith, who presents history as a preface to understand the exchange economy, and David Hume or James Steuart who present an integral process giving rise to a commercial state. For a comparison of Smith and Steuart on the use of conjectural history, see also Ramos (2007).

<sup>8</sup> Turgot shows a series of stages of human progress, starting in the barbarian stage (hunters) in which there are no inequalities or property, moving to the pastoral stage in which domestic animals help to obtain stability and a surplus, which generates the establishment of property. The third stage is the agricultural stage, in which the surplus causes a material inequality and brings about a greater division of tasks in a specialisation process (Faure-Soulet, 1964; Meek, 1973). The theory of the stages of human progress was used by contemporaries such as John Millar, Adam Smith, and Adam Ferguson (Skinner, 1966). For an analysis of Steuart’s concept of progress, see Doujon (1994).

share of the property, and draw authority and consideration to that middling rank of men, who are the best and firmest basis of public liberty.<sup>9</sup>

Hume divides the economy into two sectors: agriculture and industry, based on the ability of the former to generate more food than necessary.<sup>10</sup> The new preferences for products manufactured abroad boost development. Imports introduce agricultural workers to the market as food sellers, through their surplus production, and as buyers of manufacture. Steuart takes this same scenario as a reference. The hunter-gatherer stage is the first moment of scarcity of productive resources because nature does not provide enough for an increasing population. The result is an agrarian stage with two social classes: those who live from the fruit of the earth without working, and those who need to work to survive.

By this operation we find mankind immediately divided into two classes; those who, without working, live upon the spontaneous fruits of the earth; that is, upon milk, cattle, hunting, &c. The other part, those who are obliged to labour the soil. It is proper next to inquire what should naturally oblige a man to labour; and what are the natural consequences of it as to multiplication. We have already said, that the principle of generation is inherent in man, and prompts him to multiply. Another principle, as naturally inherent in the mind, as the first is in the body, is self-love, or a desire of ease and happiness, which prompts those who find in themselves any superiority, whether personal or political, to make use of every natural advantage.<sup>11</sup>

Personal interest and natural inequalities generates a social relation characterised by a surplus produced by a working class, which enables another sector of the population to live without working. Firstly, a relationship of dependence appears because workers need the land and the landowners demand someone to cultivate the land. Secondly, there is no motivation among workers to produce more than what is necessary to survive. Therefore, the working class needs an additional push for its work to create a surplus. Evidently, the added element stems from power or subordination.<sup>12</sup> At this time Steuart abandons

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<sup>9</sup> Hume (1752), 277.

<sup>10</sup> Anthony Brewer (1997) points out the difference between this surplus and the physiocratic net product. It concerns the production of food that is higher than the subsistence needs, and appears in agriculture because it is the only activity that produces these goods. It is not a value that is higher than all the costs aimed at agriculture. Unlike the Physiocrats' concept of net product, Steuart points out the division of the surplus between the part destined for the owner and the part destined for the market.

<sup>11</sup> Steuart (1767), I: 28. Class relations in the Marxist or Ricardian meaning have not sense in Steuart writings. Steuart uses the term class to mean a social status — e.g., higher classes, lower classes, owners — or an occupational group — consumers, producers, free-hands, industrials — (Brewer 1997: 6). It consists of a social division of labour also used by contemporaries such as David Hume o Richard Cantillon (Skinner, 2006: 78), although Steuart emphasized the mobility of individuals between classes (Karayiannis, 1988).

<sup>12</sup> In Steuart's work, Skinner (1966) pointed out dependence between the members of a society and subordination as guidelines related to the types of social organisation in a historical context. Based on this reference, Dominique Cabonet (2001) describes the subordination/dependence duality as a principle to constitute a theory of history which analyses political regimes. For José M. Menudo (2013), Steuart's analysis seeks to find principles that statesman can use in their decision-making and historical processes provide "natural and rational" principles.

Hume's reference and presents a development that is closer to Jean-Jacques Rousseau<sup>13</sup> because dependence appears as the essential characteristic of the social state, specifically as the only link of society.

Here new ideas present themselves concerning the general principles of *subordination* and *dependence* among mankind; which I shall lay before my reader before I proceed, submitting the justness of them to his decision. As these terms are both relative, it is proper to observe, that by *subordination* is implied an authority which superiors have over inferiors; and by *dependence*, is implied certain advantages which the inferiors draw from their subordination: a servant is under *subordination* to his master, and *depends* upon him for his subsistence.<sup>14</sup>

The dependence and consequent subordination are present in all historical phases, although with varying intensity. The principle of dependence refers to the personal advantage of a life in society, which does not stem from cooperation between equals, but from subordination.<sup>15</sup> Therefore, social relations always have authority as a consequence. Equality between individuals has never existed because society as a whole is composed of a union of hierarchical relationships. Natural dependence, such as the relationship between parents and children, is now present alongside political dependence, which implies subordination via the law, first present in the form of slavery and then, by the influence of Christianity, under the feudal system: "The subordination of children to their parents, and of servants to their masters, seems to be the most rational origin of society and government".<sup>16</sup>

Regardless of the political system, the time of the agricultural stage is defined by the first moment of scarcity and an evident incapacity, moral or physical, to increase the population.<sup>17</sup> Followers of Nicolás Maquiavelo suggested limiting the population to the ownership of land available on account of the inability to exercise civic virtue without the independence secured by land ownership. Steuart considers any political limitation on population growth to be an error.<sup>18</sup> It is possible that a nation does not have resources for

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<sup>13</sup> This concept of dependence is similar to that presented by Rousseau in his critique of Thomas Hobbes. The scenario of independent individuals saved from violence by the right to property in a civil society is rejected by Rousseau. Population growth creates dependence necessary for survival and, precisely, the right to property is the threat that prevents independent survival. Against the universal consequence of unilateral dependence —i.e., exploitation—, Rousseau proposes small-scale agriculture (Fridén, 1998).

<sup>14</sup> Steuart (1767), I: 316.

<sup>15</sup> Regarding the influence of these social relations in Steuart's concept of justice, see Menudo (2013).

<sup>16</sup> Steuart (1767), I: 8.

<sup>17</sup> From these principles of subordination and dependence, each nation presents its political system on the basis of its own historical process, in other words, according to the particular circumstances that have generated permanent changes: "The rights of Kings, therefore, are to be sought for in history; and not founded upon the supposition of tacit contracts between them and their people, inferred from the principles of an imaginary law of nature, *which makes all mankind equal: nature can never be in opposition to common reason*": Steuart (1767), I: 320.

<sup>18</sup> "A Machiavelian stands up (of such there are some in every country) and proposes, instead of multiplying the inhabitants, by rendering agriculture more operose, to diminish their number, by throwing a quantity of corn-fields into grass. What is the intention of agriculture, says he, but to nourish a state? (...) Pray what do you propose to do with those whom you intend to make idle? replies a citizen. Let them betake themselves to industry. But industry is sufficiently, nay more than sufficiently, stocked already. If, says Machiavel, the

demographic growth and, in this case, reaches a situation of “physical incapacity to increase its number”. It is more common to find a situation of stagnation of the population, known as “moral incapacity”, in a society with available resources. This would be the case of those who, availing of potential agricultural resources, generate an agricultural surplus that increases the population to a level where one section is devoted to manufacture. As a result, two social working classes appear – agricultural and industrial – in a proportion determined by the agricultural surplus. This process of division by sectors does not threaten the society unit because it is made up for by the interdependence of economic activities. The increase in agricultural production depends on the food needs, which at the same time are associated with manufacturing production and the population. Economic development needs both separation and mutual support between industry and agriculture. The moral incapacity of the demand will establish the limit that prevents production from increasing. When the agrarian activity enables sufficient industry to be maintained in order to meet the needs of the entire population, society reaches a balance between production and consumption.

If, in the country we are treating of, both money and the luxurious arts be supposed to be unknown, then the superfluity of the farmers will be in proportion to the number of those whose labour will be found sufficient to provide for all the other necessities of the inhabitants; and, so soon as this is accomplished, the consumption and produce becoming equally balanced, the inhabitants will increase no more, or at least very precariously, unless their wants be multiplied.<sup>19</sup>

Once industry has emerged, the moral incapacity disappears when feudalism declines on account of the appearance of money and sumptuary consumption.<sup>20</sup> The discovery of America and the East Indies brings luxury and trade to the Royal Households. Emulating the Crown, the nobility increases their demand of superfluous goods. But the purchase of goods not produced by their lands means greater quantities of money. The solution is to replace vassalage by payments in cash and the result is a loss of authority, bringing about the collapse of the existing social order.

In order to procure this money, he [the lord] found it expedient to convert a portion of the personal services of his vassals into cash: by this he lost his authority. He then looked out for a farmer (not a husbandman) for an estate which he formerly consumed in its fruits. This undertaker, as I may call him, began by dismissing idle mouths. Still greater complaints ensued.<sup>21</sup>

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supernumerary husbandmen be thrown out of a way of living, they may go where they please; we have no occasion for them, nor for any one who lives to feed himself alone. But you diminish the number of your people, replies the citizen, and consequently your strength”: Stuart (1767), I: 180.

<sup>19</sup> Stuart (1767): I, 40.

<sup>20</sup> Absorbed in the economical debate on luxury, Stuart emphasises that this does not concern excesses, vices or a waste of fortune. It consists of consumption with positive effects as they result in employment and sustain the industrial class. Regarding Stuart’s contribution to the topic of sumptuary expense, see Ramos (2011).

<sup>21</sup> Stuart (1767): I, 68.

The emergence of modern societies describes the relationships between industrial and agricultural workers in a process of a gradual emergence of products. Initially we find the most simple case of trade because needs are satisfied with barter and neither money nor sumptuary consumption are generalised.<sup>22</sup> It could be said that trade influences production but does not manage to completely control it. Society only requires an agricultural class that obtains a surplus and an industrial class that produces manufactured goods. The need to *work* as a system of generating a surplus on the basis of subordination does not exist.<sup>23</sup> In a modern society, that which the working classes do is called *industry* because, alongside time, it also incorporates ingenuity.

*Industry* likewise implies something more than *labour*. *Industry*, as I understand the term, must be voluntary; *labour* may be forced: the one and the other may produce the same effect, but the political consequences are vastly different. *Industry*, therefore, is applicable to free men only; *labour* may be performed by slaves.<sup>24</sup>

Why then do workers produce more than is needed to survive? The “system of trade and commerce” responds to this question by explaining the growth of an industrial population and the increase of the surplus.

The next thing to be examined, is, how bartering grows into trade, properly so called and understood, according to the definition given of it above; how trade comes to be extended among men; how manufactures, more ornamental than useful, come to be established; and how men come to submit to labour, in order to acquire what is not absolutely necessary for them. This, in a free society, I take to be chiefly owing to the introduction of money, and a taste for superfluities in those who possess it.<sup>25</sup>

### 3. The construction of exchange economies

Although the division of classes is one of the initial elements of the analysis, for Steuart, important economic change appears with the institutional organisation that guides production.<sup>26</sup> There is no natural trend towards exchange that promotes the division of labour and, therefore, enables commercial society to be a consequence of human

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<sup>22</sup> Steuart (1767), I: 238.

<sup>23</sup> Jean Dellemotte and Benoît Walraevens (2013) present the contrary consequence in the case of Adam Smith. Work survives in commercial society through a salary relationship of dependence and subordination between the worker and the capitalist which replaces feudal dependence in primitive societies.

<sup>24</sup> Steuart (1767): I, 224.

<sup>25</sup> Steuart (1767): I, 237.

<sup>26</sup> Skinner (1963) prefers the term control instead of guide. We could discuss control in terms of group or class, but not monopoly. Steuart explicitly underlines the need for competition between merchants so that the “public market” works.

nature.<sup>27</sup> For Steuart, the institutional organisation that we call a market economy is an artificial construction and has its origin in the demand of products. Steuart avoids the use of the term *commercial society* and only nations that have decided to be commercial appear; in other words, nations that have introduced “the system of trade and commerce”, in which production is completely managed by traders – as a result it is also called a “system of trade and industry”.

The process begins when the system of trade and commerce, which merchants were already executing in their countries of origin, spreads to other nations. As Adam Smith would do later, Steuart uses the example of a pin factory to explain the economic change involved in the new institutional organisation for production. Therefore, Steuart focuses on the new relationship between producer and consumer, contrary to the form of production caused by the division of labour in Adam Smith. He explains that now the producer sells all the production to the merchant, who (i) satisfies more distant clients, (ii) detects excesses in supply or demand in the sectors, (iii) transfers this information to the producers via public markets, and (iv) avoids the problems that lead consumers to acquire goods directly from the producer.<sup>28</sup> Steuart highlights the artificial nature of these institutions by presenting merchants as creators, responsible for implementing them in other places. Nevertheless, it does not have to mean damage for society as a whole.

Trade and commerce are an abbreviation of this long process; a scheme invented and set on foot by merchants, from a principle of gain, supported and extended among men, from a principle of general utility to every individual, rich or poor, to every society, great or small.<sup>29</sup>

Chapter V of the second book of his *Principles of Political Economy* is exclusively dedicated to the merchants' process of introducing a trade described as “active”,<sup>30</sup> since it is not limited to providing goods that arise from the needs of families, or to generating new ones.

The active [trade] is when merchants, who have executed this plan at home with success, begin to transport the labour of their countrymen into other regions, which either produce, or are capable of producing such articles of consumption, proper to be manufactured, as are most demanded at home; and consequently will meet with the readiest sale, and fetch the largest profits.<sup>31</sup>

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<sup>27</sup> Hume and Smith describe exchange as natural (Rutherford 2012, 36). Hume associates the appearance and spread of the commercial system with the universal desire to gain and to experience, while Smith links the system to a natural tendency to exchange in individuals (Skinner, 1993).

<sup>28</sup> Steuart (1767): I, 241-243.

<sup>29</sup> Steuart (1767): I, 241.

<sup>30</sup> Edgar Johnson (1937) names Malachy Postlethwayt as preceding the distinction between passive and active trade. The latter involves the control of the transport infrastructure, the possession of industrial establishments and the development of work-related ingenuity. Its consequences are wealth and economic independence. Passive trade is a result of a failure in the manufacturing development and entails commercial paralysis, exhaustion of natural resources and dependence.

<sup>31</sup> Steuart (1767): I, 247.

With the help of correspondents and producers, the merchant devises strategies and devices to generate a sumptuary consumption demand, in accordance with the customs of each town and with initial prices according to the ability to pay, and not the cost.

The traders will, therefore, be very fond of falling upon every method and contrivance to inspire this people with a taste of refinement and delicacy. Abundance of fine presents, consisting of every instrument of luxury and superfluity, the best adapted to the genius of the people, will be given to the prince and leading men among them. Workmen will even be employed at home to study the taste of the strangers, and to captivate their desires by every possible means.<sup>32</sup>

The imitation of the nobility and the ‘aspiration effect’ of workers lead the system to spread to society as a whole, until the consumption of luxury goods becomes a habit.<sup>33</sup> Steuart considers needs to be accumulative and unlimited, in such a way that ostentatious consumption in the present later becomes a need – known as ‘political necessities’ to differentiate them from those needs stemming from subsistence – for every social class.<sup>34</sup> Although the boost in the demand generates unlimited possibilities for growth, the generalisation of the desire for products requires a greater industrial population involved in exchanges and a greater surplus of the agricultural producer to feed the whole population.<sup>35</sup> In this case, individuals are linked by another type of dependence, known as “commercial”, which coordinates them through relations of exchange. Now the law is not the element that forces workers to produce more than necessary to survive, and in its place is the desire for goods that are not necessary for survival.

So soon as money is introduced into a country it becomes, as we have said above, an universal object of want to all the inhabitants. The consequence is, that the free hands of the state, who before stopped working, because all their wants were provided for, having this new object of ambition before their eyes, endeavour, by refinements upon their labour, to remove the smaller inconveniences which result from a simplicity of manners.<sup>36</sup>

Money fosters a generalised desire for the superfluous which leads to the need to generate a surplus with which exchange can be performed. Now the free individual is subordinate to a “system of trade and commerce” which provides him with both luxury goods and money to buy them.<sup>37</sup> The result is an exchange economy in which all types of assets will circulate.

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<sup>32</sup> Steuart (1767): I, 249.

<sup>33</sup> Robert Eagly (1961) uses *aspiration effect* to refer to the increase in productivity generated by the more disadvantaged population’s desire for a better quality of life.

<sup>34</sup> See chapter XXI, book II of Steuart’s *Principles of Political Economy*.

<sup>35</sup> Steuart (1767), I: 236.

<sup>36</sup> Steuart (1767), I: 239.

<sup>37</sup> “From these principles it appears, that slavery in former times had the same effect in peopling the world that trade and industry have now. *Men were then forced to labour because they were slaves to others; men are now forced to labour because they are slaves to their own wants*”: Steuart (1767), I: 52.

Those who can circulate their lands, their houses, their manufactures, nay their personal service, even their hours, may produce an encouragement for industry far beyond what could be done by metals only. And this may be done, when the progress of industry demands a circulation beyond the power of the metals to perform.<sup>38</sup>

Once the origin and emergence is known, Steuart considers the issue of transition, and warns about the unfounded expectations that the commercial nation generates, because its massive diffusion has no relation with the legislator's concern for citizens' wellbeing. Its establishment is directly associated with the ambition and prestige of the sovereign.

*Trade* and *industry* are in vogue; and their establishment is occasioning a wonderful fermentation with the remaining fierceness of the feudal constitution. Trade and industry owed their establishment to *war* and to *ambition*; and perhaps mankind may hope to see the day when this establishment will put an end to the first, by exposing the expensive folly of the latter. Trade and industry, I say, owed their establishment to the ambition of princes who supported and favoured the plan in the beginning, principally with a view to enrich themselves, and thereby to become formidable to their neighbours.<sup>39</sup>

Expectations of peace are based on the ability of the exchange economy to avoid military conflicts by replacing conquests, such as elements of the sovereigns' ambition, with ostentation.<sup>40</sup>

The first discussion is whether it is possible to introduce the system of trade and commerce in the nation as a whole. Steuart describes the impact involved in implementing it in a nation with considerable natural disadvantages.<sup>41</sup> With superfluous consumption generalised, the purchase of foreign products offered by merchants can only be paid for with an agricultural surplus fully destined for exportation. Thus the appearance of an industrial population that enables the foreign product to be replaced by the national one is not possible. Without intervention from the statesman, the price increase in food will reduce incomes until society is divided into two classes: rich and poor. In these nations, the exchange economy is more hurtful than beneficial. Economic policy can only promote "passive trade",<sup>42</sup> which consists of defining a national demand of exterior products that is met *ad hoc* – i.e., without the existence of the system of trade and commerce.

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<sup>38</sup> Steuart (1767), II: 41.

<sup>39</sup> Steuart (1767): I, 329.

<sup>40</sup> Steuart probably refers to Montesquieu's thesis which points that trade based on mutual dependency discourages war. Smith also morally approves of commercial society because the spread of the market reduces food costs and because international trade helps international peace (Fleischacker, 2004: 55).

<sup>41</sup> Steuart (1767): I, 327. Only the possession of gold or silver mines could compensate for the natural disadvantages for production or distribution.

<sup>42</sup> "Strangers and people of distant countries finding the difficulty of having their wants supplied at home, and the ease of having them supplied from this country, immediately have recourse to it. This is passive trade.": Steuart (1767): I, 247.

Considering the economic requirements, Steuart reflects on the political and social conditions to introduce the system of trade and commerce into a nation and turn it into a commercial nation.

I am far from being of opinion that this [the modern system of trade and industry] is the only road to happiness, security, and ease; though, from the general taste of the times I live in, it be the system I am principally employed to examine. A country may be abundantly happy, and sufficiently formidable to those who come to attack it, without being extremely rich. Riches indeed are forbid to all who have neither mines, or foreign trade.<sup>43</sup>

In the relationship between political and economic systems, both republics or democracies (he uses both terms) and monarchies allow it to be implemented, although each political system entails a particular exchange economy.<sup>44</sup> Equality is a priority in the democratic system, involving a guarantee of freedom but a moderation of expenses, discouraging national industry. The inequality intrinsic to the monarchic system is detrimental to freedom but allows an increase in the luxury that encourages local manufacture. Therefore, democracy promotes an exchange economy with pre-eminence in the external sector, while monarchies encourage an economy in which domestic trade dominates<sup>45</sup>. In any case, the threat to freedom and frugality are inconveniences that may be overcome if the statesman intervenes in trade.

The only political system that is not compatible with the commercial nation is tyranny. The problem is known as “undetermined subordination”, meaning, a lack of public liberty.<sup>46</sup> A society of free men means that the exercise of authority upholds the principles of impartiality (uniform application) and non-arbitrariness (lack of changeable desire). Steuart presents the relationship between freedom and the law from a different perspective to that of the clashing between the restriction of law and the power of freedom.<sup>47</sup> Instead of being an instrument of protection, the law is a means of guaranteeing the exercising of the activity – for example, when a legislative project removes the physical barriers of a territory, creates a space of action and eliminates a

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<sup>43</sup> Steuart (1767): I, 326.

<sup>44</sup> Steuart (1767): I, 322.

<sup>45</sup> Of all the empirical evidence contributed by Adam Przeworski et al. (2000) on the contemporary relationship between different political systems and the market economy, it is important to note a difference between democracies and dictatorships as far as the paths of their economic development are concerned. While the economic growth of democracies lies, essentially, in the productivity of the work and in technological progress, dictatorships tend to grow via increases in the workforce and investment taxes on physical capital.

<sup>46</sup> Steuart considers it necessary to define his own concept with the term “public liberty”, since the natural liberty of the theorists of social contract does not exist: “By a people’s being free, I understand no more than their being governed by general laws, well known, not depending upon the ambulatory will of any man, or any set of men, and established so as not to be changed, but in a regular and uniform way; for reasons which regard the body of the society, and not through favour or prejudice to particular persons, or particular classes”: Steuart (1767): I, 315-6.

<sup>47</sup> He uses the study of the *liberté et protection* formula proposed by J.-F. Melon and also used by F. Verón de Forbonnais. The law seeks to control freedom and, therefore, will remove any obstacle that represents a threat.

situation of privilege, or when the law develops a commercial agreement between nations, the merchants join new market spaces. The system of trade and commerce does not operate without public freedom because industry is destroyed when the producer is subjected to discretionary taxes, charges or assistance. Steuart highlights the unbearable uncertainty that this situation provokes on the producer's decision.

It produces no difference, whether these irregularities be exercised by those of the superior classes, or by the statesman and his substitutes. It is the irregularity of the exactions more than the extent of them which ruins industry. It renders living precarious, and the very idea of industry should carry along with it, not only an assured livelihood, but a certain profit over and above.<sup>48</sup>

It is not the essence of the tax system because Steuart considers it completely necessary for the economic activity. For example, high, general, stable and progressive taxes do not ruin manufacture although they may have negative consequences on external trade.<sup>49</sup> But an arbitrary tax system distorts competition, interrupts industrial activity and prevents the appearance of new initiatives. Hoarding eventually appears and public funds diminish because the sources of private wealth have disappeared. The poor classes will make the nation rich but they find themselves without credit, because everything is borrowed from the State, with taxes that fall on productive resources instead of taxing the outcome of the production.<sup>50</sup>

The third matter is the influence of the exchange economy on the division of social classes. Steuart discusses its incompatibility with a society divided between landowners and workers, as occurs in feudalism. Since industry generates wealth and wealth grants power, the sovereign cannot establish a system that grants power to those who must only obey.<sup>51</sup>

All these violent convulsions have been owing to the short-sightedness of statesmen; who, inattentive to the consequences of growing wealth and industry, foolishly imagined that hereditary subordination was to subsist among classes, whose situation, with respect to each other, was entirely changed.<sup>52</sup>

When the exchange economy is possible, the sovereign of the feudal nation must assume an inevitable change in the relations of dependence and subordination. Steuart describes three historical situations to explain how subordination gives way to the emergence of classes that question the power balance: (i) the opening of the doors of the Senate of Venice or Genoa to the prosperous citizens; (ii) the political influence of the

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<sup>48</sup> Steuart (1767): I, 324-5.

<sup>49</sup> The situation would worsen if the sovereign sought to compensate for the loss of collection with more taxes on immovable assets.

<sup>50</sup> "... robbing them of the seed before it is sown, instead of waiting for a share in the harvest": Steuart (1767): I, 326.

<sup>51</sup> Steuart (1767): I, 326.

<sup>52</sup> Steuart (1767): I, 328.

Praetorian Guard or the Janissaries through the security they provided to the Emperor or the Sultan; and (iii) the replacement in the influence on the monarch's decisions of the Nobleman's wisdom by the liquidity of an industrial class that holds the monarch's sources of wealth.<sup>53</sup> If the statesman limits the power of the upper classes and spreads public freedom via a single subordination to the law, income distribution is possible.<sup>54</sup> The effects are greater when Steuart describes how the market system limits the power of the sovereign himself. Now the legislator cannot access the wealth of the citizens because they can evade his authority by avoiding taxes. The system of trade and commerce means the administration or government system enabling the action of power is more complex.

The statesman looks about with amazement; he, who was wont to consider himself as the first man in the society in every respect, perceives himself eclipsed by the lustre of private wealth, which avoids his grasp when he attempts to seize it. This makes his government more complex and more difficult to be carried on; he must now avail himself of art and address as well as of power and authority.<sup>55</sup>

Greater attention should be paid to a loss of traction in the statesman's policy, entailing an irreversibility of the process because, adopted to the system, there is no going back.

When once a state begins to subsist by the consequences of industry, there is less danger to be apprehended from the power of the sovereign. The mechanism of his administration becomes more complex, and, as was observed in the introduction to the first book, he finds himself so bound up by the laws of his political œconomy, that every transgression of them runs him into new difficulties.<sup>56</sup>

#### 4. The wedge and the clock

The system of trade and commerce is not a political choice for Steuart. The design of the merchants, which gives rise to an exchange economy, can be channelled but not

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<sup>53</sup> As a necessary condition for these changes, Steuart introduces class consciousness, particularly on the importance for the system to survive, in all examples.

<sup>54</sup> Steuart pointed out, in his exposition on the benefits of the exchange economy, that the results are associated with the economic policies used: "If they be of an indolent disposition, directed in their political œconomy by established habits and old prejudices, which prevent innovations, although a change of circumstances may demand them, the effect will be to put a stop to population; which cannot augment without an increase of food on one hand, and of industry on the other, to make the first circulate. These must go hand in hand: the precedence between them is a matter of mere curiosity and speculation. If, on the contrary, a spirit of industry has brought the country to a certain degree of population, this spirit will not be stopped by the want of food; it will be brought from foreign countries, and this new demand, by diminishing among them the quantity usually produced for their own subsistence, will prompt the industrious to improve their lands, in order to supply the new demand without any hurt to themselves. Thus trade has an evident tendency towards the improvement of the world in general, by rendering the inhabitants of one country industrious, in order to supply the wants of another, without any prejudice to themselves": Steuart (1767): I, 157-8.

<sup>55</sup> Steuart (1767): I, 277-8.

<sup>56</sup> Steuart (1767), I: 331.

counteracted. A failure in its implementation results in violent revolts, revolutions and civil wars.

But in our days, we have seen those who have best comprehended the true principles of the new plan of politics, arbitrarily limiting the power of the higher classes, and thereby applying their authority towards the extension of public liberty, by extinguishing every subordination, but that due to the established laws.<sup>57</sup>

In chapter XIV of the second book *The Principles of Political Economy*, Steuart explains how the statesman also responds with the creation of a plan, called the “plan of political economy”<sup>58</sup>. Hirschman (1977) describes how Steuart’s exchange economy changes the tyrant and his arbitrary power for a statesman motivated by the public good that only he knows: “It is the combination of every private interest which forms the public good, and of this the public, that is, the statesman only, can judge”.<sup>59</sup> Steuart believes that the public good is not an increase in the State’s power, but the happiness of all citizens, and particularly survival or an improvement in their conditions.<sup>60</sup> A combination of particular interests is needed, according to the group or class to which the individuals belong, in the subordination and dependence relationships maintained by the new society of free men. From primitive communities that are very socially united on account of the high degree of dependence and subordination among their members, we move to a society of free men where feudal subordination does not exist.

For the same reason, if we can suppose any person entirely taken up in feeding himself, depending upon no one, and having nobody depending on him, we lose the idea of society, because there are no reciprocal obligations between such a person and the other members of the society.<sup>61</sup>

As happens with sectorial division, the society unit needs strong interdependence that compensates for the separation of social classes. It is in this way that convention or new legal dependence appears. Part of the population, those devoted to manufacture, assumes the risk of leaving their survival in the hands of farmers and agricultural landowners.

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<sup>57</sup> Steuart (1767): I, 330.

<sup>58</sup> Deborah Redman (1996) reveals various arguments that clarify the inconsistency of the readings that mistakenly interpret Steuart’s work as a defence of totalitarianism. It is important to note that the subject of this chapter is not political systems, previously examined, but the statesman’s mode of action. However, even more substantially it is the very subject of the *Principles of Political Economy*: “I answer, that although it seem addressed to a statesman, the real object of the inquiry is to influence the spirit of those whom he governs”: Steuart (1767): I, xviii.

<sup>59</sup> Steuart (1767): I, 221.

<sup>60</sup> Happiness cannot be separated from references to the individual, and therefore, he uses *happy people, public good, common welfare, public interest* without distinction. In this way a rupture with mercantilism and former cameralism occurs, in which politics does not need these singular referents. Steuart distances himself from the concept of “police”, which regulates economic activity, to consider an intervention proposal that is difficult to qualify for the literature. Redman (1996) indicates the influence of Johann Heinrich Gottlob von Justi in the formation of this concept.

<sup>61</sup> Steuart (1767), I: 109.

Benefitting from a relationship of dependence on agriculture that guarantees them the necessary goods, the industrial class accepts subordination to the law<sup>62</sup>. Consequently a pact is devised so that society guarantees the protection of a new class that produces far from the subsistence sources: “This conveys my idea of a free and perfect society, which is, a general tacit contract, from which reciprocal and proportional services result universally between all those who compose it”.<sup>63</sup> It consists of a dependence contract that encompasses everyone – i.e., it prohibits unilateral independence – and, therefore, the “political” relationship of dependence and subordination is limited to the link between the individual and the State. But it does not refer specifically to the protection of property<sup>64</sup>. Steuart uses involuntary unemployment as an example of abuse or breach of the contract between the State and the individual, since, subordination of the citizen to the law is in contrast to the means to guarantee their survival.

Whenever therefore any one is found, upon whom nobody depends, and who depends upon every one, as is the case with him who is willing to work for his bread, but who can find no employment, there is a breach of the contract, and an abuse.<sup>65</sup>

The subordination of subjects to the law in exchange for survival makes the statesman responsible for individual wellbeing.<sup>66</sup> The forces of the system of trade and commerce modify the correspondence between the usefulness contributed and the profit obtained, altering the welfare of the social groups in contrasting directions. Damages can arise from the introduction of machinery, from the variation of prices of necessary goods, from delays in the operation of the markets or from the loss of competitiveness. The consequences in individuals are unemployment, hunger, crisis of balance of payments or increase in credit. Therefore, the statesman is a necessary response to social relations that are in constant movement, to maintain common wellbeing.

(...) it becomes the business of the statesman to interest himself so far in the consequences, as to provide a remedy for the inconveniences resulting from the sudden alteration [a number of machines are all at once introduced into the manufactures of an industrious nation]. It is farther his duty to make every exercise even of liberty and refinement an

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<sup>62</sup> “From these principles may be deduced the boundaries of subordination. A people who depend upon nothing but their own industry for their subsistence, ought to be under no farther subordination than what is necessary for their protection”: Steuart (1767): I, 321.

<sup>63</sup> Steuart (1767): I, 109.

<sup>64</sup> But this concept of protection is a good of a particular nature because it can only be obtained in collective terms. It is not a social contract that establishes a framework of cooperation as a minimum cost imposed on individual action, and nor does it appear at the demand of citizens as a means of providing public goods (Khalil, 1987).

<sup>29</sup> From 1699 to 1776, the main question in political science is whether a commercial system renders a sovereign corrupt.

<sup>65</sup> Steuart (1767): I, 109.

<sup>66</sup> Steuart distances himself from the concept of *policy*, which regulates economic activity, to suggest an intervention proposal that is hard for the literature to label —paternalistic (Skinner, 1966), benign (Redman, 1996), corporate State (Eltis, 1990).

object of government and administration; not so as to discourage or to check them, but to prevent the revolution from affecting the interests of the different classes of the people, whose welfare he is particularly bound to take care of.<sup>67</sup>

The legislator has two fundamental means of creating an institutional organisation that is suitable for the complexity of the exchange economy. Firstly, he must choose the political economy that suits the wellbeing of his nation.

I hope I have now abundantly shewn the force of the different principles, and it must depend upon the judgment of the statesman to combine them together, and adapt them to his plan: a thing impossible to be even chalked out by any person who is not immediately at the head of the affairs of a nation. My work resembles the formation of the pure colours for painting, it is the artist's business to mix them.<sup>68</sup>

The plan must be built for one community because not all communities present the same combination of private interests or the same economic conditions – thus, the same response will not apply to all societies.<sup>69</sup> The structure consists of a body of knowledge provided by economic science – this is the sense of limit imposed by the political economy on the leader's arbitrary abuses.<sup>70</sup> The former exercise of authority is likened to the exercise of strength and solidity of a wedge, but now it must be similar to the delicacy of a clock.<sup>71</sup> The plan of political economy is a design that seeks to organise the statesman's exercise of power on citizens, to whom he is linked by dependence and legal subordination.

The second element is persuasion. Steuart's proposal is not to look for a solution that increases wellbeing, considering the restrictions posed by private interests. In the same way that merchants have modified the behaviour of individuals, the statesman can make society benefit from the effects of the mechanics of passions orienting individual action towards the direction specified in the *plan*. The way in which the economic policy is transmitted is an incentive for citizens who are looking out for their own interests.

It is the business of a statesman to judge of the expediency of different schemes of oeconomy, and by degrees to model the minds of his subjects so as to induce them, from the allurements of private interest, to concur in the execution of his plan.<sup>72</sup>

## 5. Final remarks

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<sup>67</sup> Steuart (1767): I, 161.

<sup>68</sup> Steuart (1767): I, 308.

<sup>69</sup> See Elias Khalil (1989) and Robert Urquhart (1996).

<sup>70</sup> From 1699 to 1776, the main question in political science is whether a commercial system renders a ruler corrupt (Pocock, 1981).

<sup>71</sup> Steuart (1767): I, 426.

<sup>72</sup> Steuart (1767): I, 4.

Throughout this work we have verified that Steuart forms part of the literature explaining the evolution of political and social life through economic activity. In his case, it would be more appropriate to discuss a theory of the historical process, since Steuart does not refer to the progress involved in a society moving towards a new stage. In fact, in the case of the move towards the exchange economy, we have observed a much more cautious author than that revealed by the literature. Rather than an unequivocal defence of trade, Steuart analyses the opportunities and disasters that can generate a system of trade and commerce. He shows greater concern for studying the political and social effects of the exchange economy than for approving the increase in wellbeing that its establishment generates.

The second matter is his theory of power relations. Steuart's discourse is aimed at the public opinion to defend the argument that the response to sovereign abuses is not less State, but a better exercise of political power. Personal interest cannot be channelled towards the public good by institutions because society is made up of a union of hierarchies that generate different power relations —i.e. legislation is only one of them. We must also add the impact of exogenous events —e.g. Christianity or the discovery of the Indies— which slowly modify subordination links. Therefore, Steuart's economic thought cannot be studied on the basis of a group of relationships between equals. Each individual, group or social class is situated on a different level to the rest, and each Exchange has different consequences for the parts. Evidently, when the problem to be treated is the origin and emergence of the exchange economy, Steuart questions why and how individuals have been subordinate to the system of trade and commerce.

Finally, we highlight the importance of the construction of institutional organisations, involving designs aimed at achieving particular purposes and with unexpected collective consequences. The system of trade and commerce was created by merchants to obtain benefits, and extended by the sovereign, for his ostentation and personal prestige, until it became generalised as a commercial nation. The consequences are (i) the appearance of a new type of power (commercial dependence), (ii) less subordination to the law, (iii) the disappearance of the feudal system and (iv) an increase in the wellbeing of the poorest classes. Steuart warns the statesman of the responsibility of adapting to times that demand that this type of institutional organisation be created, and of forgetting any reference to a non-existent natural order. The plan of political economy is, above all, a fiscal design that grants resources to the statesman. The role of persuasion in this new political economy remains to be determined. Its role in the emergence of the exchange economy has been essential because the merchant turns the acquirement of luxury goods into political needs for the people. The government also requires persuasion so that its plan is successful.

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