

**University of California, Berkeley  
Department of Economics  
Graduate Seminar 270D**

**Monetary Theory from Smith to Wicksell:  
Laissez Faire, Rules & Discretion**

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Spring Semester, 2008**

**Office Hours: Wednesday, 1 - 3pm, Room 318, IRLE Channing Way 2521  
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**Overview:**

The seminar will survey major approaches to monetary theory from Adam Smith to Knut Wicksell and concludes with a brief overview from a modern perspective. Thus, we will cover what is known as the period of 'classical economics' mainly as it developed in the British Isles with an extension to post-classical thought. The historical sections of the seminar will begin with a brief review of the payments system and intermediation as they existed in the second half of the 18th century. The analytical monetary theory of the period will be presented via David Hume's economic writings of 1752 and Adam Smith's theories of 1776.

The Restriction period, when bank notes became inconvertible (1797-1821), opened a new period in monetary history and theory. We will present the important early round of the Bullionists vs. anti-Bullionists debate of 1800-2 and focus on Henry Thornton, who was a relatively neglected theoretician for many years, but no more. We will present his most original framework and assess his contributions both to the refutation of the 'invisible hand' approach in banking and to the critique of the Quantity Theory. The later round of the Bullionist debate will bring in the famous Ricardo, who since 1810 had been perceived as the one who shaped classical monetary theory and, contrary to Smith, led it in the direction of the Quantity Theory.

Since the Resumption of cash (gold) payments in 1821, convertibility became a side issue which attracted only few economists and our attention will be devoted to the debates concerning the various reforms in banking, both in the Bank of England and the other

banks. This will lead to the famous Currency school (Lloyd, Torrens, Norman) versus Banking school (Tooke, Fullarton, Wilson) debate in the mid 1840's. In this part we will reexamine critically the new materials concerning the role of the, so called, Free Banking School in the debate which led to the 1844 Bank Act.

We will review post Bank Act scholars such as Jevons and other early and late marginalists and survey the ideas of Marshal (1871) and the Cambridge Oral tradition. Then the influential work of Bagehot (1873) concerning central banking will be presented. In this section we will also review another neglected political economist, at least in the spheres of money and banking, Karl Marx, and ask how he fits into the story. The final section will cover the innovative breakthrough contributions of Wicksell. We will then bring together the major themes of the seminar and relate them to Keynes monetary theory and to open question in monetary theory as we conceive them today.

**Requirements:**

- **You will benefit most from the class if you come prepared. You will be expected to read the required readings in advance of the weekly class meeting and hand in a brief written response to a question on the reading.**
- **Active participation in the weekly meetings.**
- **One short presentation in class during the semester.**
- **One seminar paper that may be based on the presentation.**

**Grade: 50% grade on seminar, 20% presentation, 30% active participation including answers to readings.**

*Most readings are available in the packet. For those that are not available, I will make other arrangements.*

Required - (\*) Recommended - (\*\*)

**Lecture 1:** Payments & Intermediation – A general introduction  
The Financial System in mid 18<sup>th</sup> Century England

Readings:

Feavearyear (1931) Ch's 5 (\*), 7 (\*), 8

Arnon – Draft Ch 1

**Lecture 2:** David Hume: The Specie-Price Mechanism & Mercantilism

Readings:

Hume (1752) ‘Of Money’ (\*); ‘Of the Balance of Trade’ (\*)

Skinner (1996) Ch 10 (\*)

**Lecture 3:** Adam Smith's Monetary Theory: The Case for Laissez Faire

Readings:

Smith, A. (1776) Book 1 Ch's 1-3 (\*); Book 2 Ch 2 (\*)

Laidler (1981) (\*)

**Lecture 4:** The Restriction Period – 1797-1821  
The Early Bullion Debate: Baring & Boyd

Readings:

Baring (1797) pp. 1-25 (\*\*)

Boyd (1801) pp. 69-82 (\*)

Fetter (1965) Ch 2 (\*)

Laidler (1987) (\*\*)

**Lecture 5:** The Early Bullion Debate: Thornton's Innovative Thought.

Readings:

Thornton (1802) Ch. 7 (\*)

Hicks (1967) Ch 8 (\*\*)

Skaggs (1995) (\*)

Arnon (2007)

**Lecture 6:** The 1809-10 Bullion Debate: Ricardo and the Bullion Committee

Readings:

Ricardo (1810) (\*)

Bosanquet (1810) pp. 1-15

The Bullion Committee (1810) in Cannan (1919) pp. 66-71 (\*)

Ricardo (1824) (\*)

Viner (1937) Ch 4 (\*\*)

Sayers (1953) (\*)

**Lecture 7:** Instability and Banking Reforms: The Committee of 1832 and Palmer

Readings:

Palmer (1837) (\*\*)

Fetter (1965) Ch 4 (\*)

O'Brien (2004) Ch 6 (\*)

**Lecture 8:** Laissez Faire, Rules and Discretion: The Currency School

Readings:

Loyd (1857) pp. 1-40 (\*)

Fetter (1965) Ch's 5 (\*)

Robbins (1958) Ch 4 (\*\*)

**Lecture 9:** Laissez Faire, Rules and Discretion: The Banking School

Readings:

Tooke (1844) Ch's 11-15 (\*)

Fetter (1965) Ch 6 (\*\*)

Arnon (1997) (\*)

**Spring Recess**

**Lecture 10:** Laissez Faire, Rules and Discretion: The Free Banking School

Readings:

Parnel (1827)

Schwartz (1987) (\*)

**Lecture 11:** Does Karl Marx Fit in?

Readings:

Foley (2003) (\*)

**Lecture 12:** Walter Bagehot and Defensive Central Banking

Readings:

Bagehot (1873) Ch's 12-13 (\*)

Laidler (1991) Ch 2 (\*)

**Lecture 13:** Marshall and the Cambridge Oral Tradition

Readings:

Marshall (1871) (\*)

Laidler (1991) Ch 3

Humphrey (2004) (\*)

**Lecture 13:** Knut Wicksell and Active Central Banking

Readings:

Wicksell (1898) Ch's 5-7 (\*)

Wicksell (1907)

Laidler (1991) Ch 5 (\*)

**Lecture 14:** Payment, Intermediation and the Banking System: Keynes and an Attempt at Perspective

Readings:

Keynes (1946) Ch 17 (\*)

Hicks (1967) Ch's 7 & 9 (\*)

Blaug, M. (1985), Ch. 2

**On-line resources and more links can be found at:**

New School's History of Economic Thought Website: <http://cepa.newschool.edu/het/>

McMaster Archive: <http://socserv2.socsci.mcmaster.ca/~econ/ugcm/3ll3/>

Liberty Fund: <http://oll.libertyfund.org/indexold.html>

<http://www.econlib.org/library/classics.html>

JSTOR: <http://www.jstor.org/search/>

The Warren J. Samuels Portrait Collection at Duke University:

<http://www.econ.duke.edu/Economists/>

## **Selected Reading list:**

### **Primary sources**

Bagehot, W. (1873/1896) *Lombard Street: A Description of the Money Market*, London: Kegan Paul, Trench, Thurner.

Baring, F. (1797/1967), *Observations on the Establishment of the Bank of England and on Paper circulation of the Country*, London: Minerva Press [Kelley Publishers].

Baring, F. (1801), *Observations on the Publication of Walter Boyd*, London: Minerba Press.

Bosanquet, C. (1810) *Practical Observations on the Report of the Bullion-Committee*, 2<sup>nd</sup> edition, corrected with a supplement, London: Richardson.

Boyd, W. (1801), *A Letter to the Right Honourable William Pitt on the Influence of the Stoppage of Issues in Specie at the Bank of England on the Prices of Provisions and Other Commodities*, London: Wright.

Horner, F. (1957), *The Economic Writings of Francis Horner in the Edinburgh Review 1802-1806*, Edited and with an Introduction by F.W. Fetter, New York: Kelley & Millman.

Hume, D (1752), in Rotwein, E (1955) *David Hume: Economic Writings*, Madison: University of Wisconsin Press.

Fullarton, J. (1844), *On the Regulation of Currencies*, London: John Murray, (2nd edition 1845).

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Loyd, S. J. [Lord Overstone] 1857, *Tracts and other Publications on Metallic and Paper Currency*, London: Harrison.

Marshall, A. (1923/1965) *Money, Credit and Commerce*, New York: A. M. Kelley.

Palmer, J. H. (1837), *The Causes and Consequences of the Pressure upon the Money-Market*, London: Pelham Richardson.

Parliamentary Papers (1797), *Report from the Committee of Secrecy On the Outstanding Demands of the Bank of England*, in British Parliamentary Papers, The Bank of England and Commercial Credit, Monetary Policy, General I, Irish University Press.

Parliamentary Papers (1810), [see also Cannan (1919)].

Parliamentary Papers (1819), *Report from the Secret Committee on the Expediency of the Bank Resuming Cash Payments*, P.P. 1819, (202, 282), III.

Parliamentary Papers (1848), *Report from the Secret Committee of the House of Lords appointed to inquire into the causes of the distress which has for some time prevailed among the commercial classes. and how far it has been affected by the laws for regulating the issue of banks notes payable on demand together with the Minutes of Evidence*, P.P. 1847/8, VIII, pt. III.

Parnell, H. (1827), *Observations on Paper Money, Banking and Overtrading*, London: James Ridgeway.

Ricardo, D. (1951-1973), *Works and Correspondence of David Ricardo*, edited by P. Sraffa, 11 volumes, Cambridge: The University Press.

Smith, A. (1776), *An Inquiry into the Nature and Causes of the Wealth of Nations*, edited by E. Cannan, Chicago: The University Press [1976].

Thornton, H. (1802), *An Enquiry into the Nature and Effects of the Paper Credit of Great Britain*, (with an introduction by F.A. von Hayek), New York: Farrer & Rinehart, (1939).

Tooke, T. (1844), *An Inquiry into the Currency Principle: The Connection of the Currency with Prices and the Expediency of a Separation of Issue from Banking*, London: Longman, Brown, Green, Longmans.

Wicksell, K. (1898) *Interest and Prices: A Study of the Causes Regulating the Value of Money*, [Translated by R. F. Kahn; Introduction by B. Ohlin] New York: A. M. Kelley, [1932/1965].

Wicksell, K. (1907), "The Influence of the Rate of Interest on Prices", *Economic Journal* 17, pp. 213-220.

Wicksell, K. (1914) *Lectures on Political economy Vol. II* [Edited with an Introduction L. Robbins], New York: A. M. Kelley, [1935/1978].

## Secondary sources

- Arnon, A. (1984), "The Transformation in Thomas Tooke's Monetary Theory Reconsidered," *History of Political Economy*, 16, pp. 311-326.
- Arnon, A. (1984), "Marx's Theory of Money - The Formative Years", *History of Political Economy* 16, 555-575. Also in Wood, J.C. (Ed.), *Karl Marx's Economics: Critical Assessments*, Croom Helm, 1988.
- Arnon, A. (1987), "Banking Between the Invisible and Visible Hands: A Reinterpretation of Ricardo's Place within the Classical School", *Oxford Economic Papers*, 39, pp. 268-281.
- Arnon, A. (1991), *Thomas Tooke: Pioneer of Monetary Theory*, Ann Arbor: Michigan University Press.
- Arnon, A. (1997), "Thomas Tooke, The Currency Principle and The 1844 Bank Act", Introductory Essay to Tooke's "An Inquiry into the Currency Principle", re-issued in 'Klassiker der Nationalökonomie' series, B. Schefold, (Ed), Dusseldorf, Germany: Verlag Wirtschaft und Finanzen.
- Arnon, A. (1999), "Free and Not So Free Banking Theories Among the Classics or Classical Forerunners of Free Banking and Why They Have Been Neglected", *History of Political Economy*, Volume 31, pp. 79-107.
- Blaug, M. Eltis, W. O'Brien, D. Patinkin, D. Skidelsky, R. and Wood G.E. (1995), *The Quantity Theory of Money from Locke to Keynes and Friedman*, Cheltenham: Elgar.
- Cannan, E. (1919), *The Paper Pound of 1797-1821*, London: P.S. King. [with The Bullion Report – 1810]
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- Feavearyear, A. E. (1931), *The Pound Sterling: A History of English Money*, Oxford: Oxford University Press.
- Foley, D. K. (2003) "Marx's Theory of Money in Historical Perspective"
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- Gherity, J.A. (1994), "The Evolution of Adam Smith's Theory of Banking," *History of Political Economy*, vol. 26, pp. 423-441.
- Glasner, D. (1985), "A Reinterpretation of Classical Monetary Theory", *Southern Economic Journal*, vol 52, pp. 46- 67.
- Glasner, D. (2000), "Classical Monetary Theory and the Quantity Theory" *History of Political Economy*, vol. 32, pp. 39-59.
- Hayek, F.A. (1929/1991), "The Period of Restriction, 1797-1821, and The Bullion Debate in England", in W.W. Bartley and S. Kresge (Eds), *The Collected Works of F.A. Hayek*, volume 3, Ch. 11, pp. 177-215.

- Hayek, F. A. (1939) *Introduction* to the republication of H. Thornton (1802/1939) Paper Credit.
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- Humphrey, T. M. (1982), "The Real Bills Doctrine", *Federal Reserve Bank of Richmond Economic Review*, 68(5) pp. 3-13.
- Humphrey, T. M. (1989), "Lender of Last Resort: The Concept in History" *Federal Reserve Bank of Richmond Economic Review*, 75(2) pp. 8-16.
- Klein, B., (1974), "The Competitive Supply of Money," *Journal of Money, Credit and Banking*, 6, pp. 423-453.
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- Skaggs, N. T. (2005) "Treating Schizophrenia: a comment on Antoin Murphy's diagnosis of Henry Thornton's Theoretical Condition", *European Journal of the History of Economic Thought*, vol. 12 pp. 321-328.
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- Smith, V.C. (1936), *The Rationale of Central Banking*, London: P.S. King.
- Viner, J. (1937), *Studies in the Theory of International Trade*, New York: Harper.
- White, L.H. (1984), *Free Banking in Britain: Theory, Experience and Debates, 1800-1845*, Cambridge: The University Press.

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**Packet Readings: in Replica Copy, 2138 Oxford St**

[#'s 12-14, 22-23, and 30 are not in the packet]

1. Feavearyear, A. E. (1931), *The Pound Sterling: A History of English Money*, Oxford: Oxford University Press, Ch's 5, 7-8.
2. Hume, D (1752), in Rotwein, E (1955) *David Hume: Economic Writings*, Madison: University of Wisconsin Press, 'Of Money' and 'Of the Balance of Trade'.
3. Skinner A. S. (1996), "David Hume: Economic Writings" in *A System of Social Science: Papers Relating to Adam Smith* (2<sup>nd</sup> edition), Oxford Clarendon Press, Ch 10.
4. Smith, A. (1776), *An Inquiry into the Nature and Causes of the Wealth of Nations*, edited by E. Cannan, Chicago: The University Press [1976], Book I Ch's 1-3, Book II Ch 2.
5. Laidler, D. (1981), "Adam Smith as a Monetary Economist", *Canadian Journal of Economics*, 14, pp. 185-200.
6. Baring, F. (1797/1967), *Observations on the Establishment of the Bank of England and on Paper circulation of the Country*, London: Minerva Press [Kelley Publishers] pp 1-25.
7. Baring, F. (1801), *Observations on the Publication of Walter Boyd*, London: Minerva Press.
8. Boyd, W. (1801), *A Letter to the Right Honourable William Pitt on the Influence of the Stoppage of Issues in Specie at the Bank of England on the Prices of Provisions and Other Commodities*, London: Wright, pp 69-82.
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10. Laidler, D. (1987), "The Bullionist Debate" in *The New Palgrave: A Dictionary of Economics*, (eds) Eatwell, J., Milgate, M. and Newman P. London: MacMillan.
11. Thornton, H. (1802), *An Enquiry into the Nature and Effects of the Paper Credit of Great Britain*, (with an introduction by F.A. von Hayek), New York: Farrer & Rinehart, (1939), Ch 7.
12. Skaggs, N.T. (1995), "Henry Thornton and the Development of Classical Monetary Economics", *Canadian Journal of Economics*, vol. 28, pp. 1212-1227.
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15. Ricardo, D. (1951-1973), *Works and Correspondence of David Ricardo*, edited by P. Sraffa, 11 volumes, Cambridge: The University Press, The High Price of Bullion, Vol 3 (1810), A Plan for a National Bank, Vol 4 (1824).
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17. Viner, J. (1937), *Studies in the Theory of International Trade*, New York: Harper, Ch 4.
18. Palmer, J. H. (1837), *The Causes and Consequences of the Pressure upon the Money-Market*, London: Pelham Richardson.
19. O'Brien, D.P. (2004), *The Classical Economists Revisited*, second edition, Princeton: Princeton University Press, Ch 6.
20. Loyd, S. J. [Lord Overstone] Reflections (1837) in *Tracts and other Publications on Metallic and Paper Currency* (1857), London: Harrison, pp1-40.
21. Robbins, L. (1958), *Robert Torrens and the Evolution of Classical Economics*, London: Macmillan, Ch 5..
22. Tooke, T. (1844), *An Inquiry into the Currency Principle: The Connection of the Currency with Prices and the Expediency of a Separation of Issue from Banking*, London: Longman, Brown, Green, Longmans.
23. Arnon, A. (1997), "Thomas Tooke, The Currency Principle and The 1844 Bank Act", Introductory Essay to Tooke's "An Inquiry into the Currency Principle", re-issued in 'Klassiker der Nationalökonomie' series, B. Schefold, (Ed), Dusseldorf, Germany: Verlag Wirtschaft und Finanzen.
24. Schwartz, A. J. (1987), "Banking School, Currency School, Free Banking School" in *The New Palgrave: A Dictionary of Economics*, (eds) Eatwell, J., Milgate, M. and Newman P. London: MacMillan.
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27. Laidler, D. (1991) *The Golden Age of the Quantity Theory*”, Princeton: Princeton University Press, Ch 2 & 5.
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