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*Double Competition and Market Stability in Sir
James Steuart*

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DOUBLE COMPETITION AND MARKET STABILITY IN SIR JAMES STEUART*

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1. Introduction

In all versions of economic theory, the debates surrounding both the determination of prices and their appropriateness are a central organizing concept. Sir James Steuart is no exception. However his method of demonstrating the process by which markets reach stability is very different from that usually adopted by economic theory.

We would begin by pointing out two aspects. First, James Steuart's approach begins by considering all forms of competition; he does not suppose a situation of free competition without barriers to entry in order later to provide policy recommendations, nor a situation of pure and perfect competition where imperfect competition (or rather, imperfect competitions) appears when the strict conditions required for this perfection are relaxed. Steuart develops the concept of both simple and Double competition. The second characteristic of Steuart's proposal is that the Authority –or Statesman– takes an active part in the process. Most economic theories attempt to demonstrate that (with a few exceptions), market forces themselves determine the price, and could themselves therefore be the object of a theory, because the price possesses the same “virtues” of exteriority and objectivity as other, similar data.

In order to understand the importance and originality of Steuart's approach, it is necessary first to set out the general characteristics of the economic theory. We will examine Steuart's approach in depth at a later stage. We should also point out that a comparison between different authors is acceptable because they all have the same focus, that is, exchange relations in a society dominated by mercantile relations. We should bear in mind two characteristics of these relations: firstly, mercantile relations are always

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monetary¹. Secondly, these exchanges are made by private agents whose only interest is their own. Nobody looks after everybody's interests; not in James Steuart, or in Adam Smith, or in his successors.

The second part of this paper sets out the authors' proposed method for analysing price formation in Steuart. We propose a sequential approach, consisting of different periods of time. Price determination is a stratified process within a monetary circulation system that ensures transactions between agents, that is, the market. However, every period is connected so that price fluctuation becomes a new economic problem.

The final section of this paper examines the necessary external regulation. If the market is unstable, agents do not know how to bring about this stability. Maintaining a stable price depends on an Authority outside the market. Steuart proposes a way to achieve a smooth price vibration, where the Statesman and stability are inseparable.

2. *Reference prices and market prices*

The economic canonical tradition, which specifically did not include Steuart, is far from clear. With regard to price theory, we must identify at least three stages: in the first stage currency is eliminated; in the second stage reference prices are established and with them the theoretical basis; and the final stage shows why and how the prices expressed in the economic theory effectively represent prices in a market economy.

2.1. **The removal of money**

How the monetary dimension is removed from most economic theories is an important factor, that deserves further comment –Wicksell acknowledges Adam Smith for his contribution to this narrative (Wicksell 1912: 16).

The withdrawal takes place at different levels, although there is some overlap. On the one hand, there is criticism of the confusion between the accumulation of gold (and silver) by the Prince (i.e. Nation) and economic power (and thus political and military power). A clear criticism at Nation level –the wealth of nations does not depend of the amount of gold accumulated but on production capacity– was extended to all economic agents (supposing an *ad-hoc* behaviour). Within the exchange no agent actually looks for a quantity

¹ All exchange relations lead to the choice of a currency as a unit of account, even present day exchange relations between countries. The variety of forms for a mercantile circulation (all of them described in Aristotle's *Politics* –book 1, chapter III– and later in Marx's *Capital* –book 1, chapter IV– under the names “simple mercantile circulation” and “capitalist circulation”) only makes sense in the presence of money. Exchange is money; only exchanges within the family structure avoid the mercantile definition.

of money, but rather the goods that could satisfy their needs. Money then –currency– is not wealth. This can only refer to the value of what it is used for.

The second aspect is this: currency is not a good measure of the exchange relation or prices. In fact, true exchange, which expresses the motivations of the economic agents – behaviour– does not relate to obtaining currency but the eventual compensation. In the Aristotelian sequence of commercial exchange:

$$M_1 \left[\begin{array}{c} A_1 \\ A_1 \end{array} \right] M_2$$

Currency (a simple means of circulation) can be removed totally. However, this process has two effects: the first is the assumption of equivalence; and the second is the problem of the basis of this equivalence, because money cannot as yet serve that purpose. At the same time we need to develop valid theories of value to be able to support this equivalence both beyond and before the monetary question. The theory of value is a theoretical framework for the real price, which becomes the only reference for the set of economic theories.

However, no economist can ignore the monetary dimension because ultimately the actual economic and social relationships have to be accounted for. But this process of replacing money with real prices has been proven to carry both simple and heuristic effects. It is incompatible with any process that reintegrates money into a body that was formed on the basis of its rejection. This is not the objective of our contribution, but the conclusion arrived at as a consequence of this removal.

Once the real price has been established, the final step is to determine both its measurement and its ability to represent the market price.

2.2. The reference price

The empirical determination of this real price is presented as the search for a reference price. These are the “natural prices” of Smith, Ricardo or Malthus; Marshall’s “normal prices”; the “equilibrium prices” of Walras and many others. Although there are several different proposals, there is some common ground, where these prices either set out their own conditions or have ruled out all the situations that do not serve as a reference. For example, in Classical economics, equality in the rate of profit means that the prices correspond to the “theory prices”, under “free competition”. For the Neoclassicists, the reference prices correspond to the equality between the amount offered for sale and the amount demanded, under conditions of pure and perfect competition.

It is not our intention to enter the debate on the suitability of these theories of real prices for a market economy. It is enough to know that once these reference prices are

established and properly tested they serve as a basis for the set of economic theories. The theoretical circle is closed when it reaches its departure point², in other words, the prices.

2.3. The market price

The rigorously tested process in the previous stages enables us to make some observations. Firstly, it is not an econometric test but the comparison of a totally reconstructed price –the real price– and the exchange price, which is necessarily in money. Secondly, these tests inevitably involve movement or variation. In this case, when the reference price is continually determined by statistics, the test involves a dynamic process: a variation of prices and amounts.

Finally, it is useful to point out that this movement –in itself, except in some very specific cases– shows how market prices either converge on the reference price, or they never move away from it (they gravitate around it).

We conclude this section by pointing out that these theoretical developments are well known and are often the subject of discussion and debate in both the Classical and Neoclassical³ schools. We ask what drives authors to adopt these developments. It would appear that the main reason is that convergence and gravitation are employed to demonstrate the suitability of liberalism in economics; in the absence of an Authority, exchanges will organise themselves. This does not mean that the State should be completely removed. There are many formulations, from Smith to Walras, which play down the absence of the State. However, market mechanisms are self-governing objects and far removed from Politics⁴. This is not how James Steuart views market relations.

3. *Short-run vibration: Price determination as a sequential adjustment in time periods*

James Steuart considered “the modern system was an exchange economy characterized by a high degree of dependence between forms of activity and the individuals who carry them on” (Skinner 1981: 25). The market is at the heart of the explanation of social bonds,

² Bohn-Bawerk believes that Marx’s theory demonstrates that it cannot close without including the theory of value (see *Karl Marx and the Close of his System*, 1896).

³ On the concept of gravitation within the classical theoretical framework see Richard Arena (1979), Carlo Benetti (1981), Christian Bidard (1978), Jean Cartelier (1982).

⁴ According to Montesquieu, some authors consider political structures to be an expression of economic relations; the transformation of the latter involves a change in the former.

while competition represents the mechanism of that interdependence of economic phenomena (Meek 1967: 9).

However, market competition does not create a system where the search for personal advantage accidentally leads to the public good (Taouil, 1997). Compatibility or a conflict of interests between agents brings about a variety of results, which are not always in everyone's interests.

Price formation in any market and economic policy should be analysed as heterogeneous problems. However, we should begin any analysis from a certain degree of homogeneity that Steuart formalizes, through theoretical models, of instances where individual interest is not prompted simply by the public good. Moreover, people do not behave in the same way and according to the same single principle, but they appear in their own right (Urquart 1996: 386). Therefore, Steuart rejects the idea of a trading body although "The behaviour of the aggregate person is much more stable than that of an individual person" (Neguishi 1985: 149).

The subject is not the origin of the exchange, but the exchange ratios between different agents, namely the price. The explanation of price formation leads us to consider three different agents⁵: the merchants who acquire knowledge and information for the smooth functioning of the market⁶; free-men producers⁷; and an upper limit to the so-called consumer prices⁸.

The literature has explained Steuart's model of price determination by using both a Walrasian approach (Karayianis 1987) and a Sraffian methodology (Rebeyrol, 1982). However, we find in Steuart that several concepts advise against this methodology. Firstly, Steuart makes no distinction between reference prices and market prices (in every case, these are realized and effective prices) and secondly, Steuart's profit is not in terms

⁵ Sen (1957: 50) recognised "a body of specialists" whose function is to adjust wants to wants. He also presented two consequences of merchants' actions: (i) they facilitate the process of exchange and (ii) they keep price stable.

⁶ Karayianis (1987: 117-122) describes the principles and elements which determine the exchange: the agent of differing productivities, the existence and diffusion of knowledge and information, a large number of suppliers and demanders, a kind of *tatónnement* process and a readjustment in the number of firms by means of changes in the rate of profit.

⁷ They are owners of their means of production and control their production processes. The capitalist relationship –wage-earner vs master– is only a special case because Steuart focuses mainly on the monetary dimension in the exchange relation (Tortajada 1995: 78).

⁸ In Steuart consumers are structured according to their purchasing power: The lowest and most numerous classes have a low purchasing power even if the aggregate is significant, whilst the highest classes have high individual purchasing power, but their aggregate demand is limited (Tortajada 1995: 78).

of ratio but in terms of mark-up, without a set of calculation periods (see Tortajada, 1995; Aspromourgos, 1996).

3.1. Price formation

Price determination is a process that can be broken down within a monetary circulation system. The exchange mechanism occurs on a two-fold basis: firstly between merchants and producers and then between consumers and merchants. Producers and consumers are only linked via the merchants. Merchants move from the supply to the demand or in the opposite direction.

The lowest price is the real value of the goods and the uppermost price is that above which consumers cease to purchase. The merchant's profit is the difference between *producer price*, which depends directly on the tension between producers and merchants, and *consumer price*, which depends directly on the tension between consumers and merchants. The exchange relation between merchants and producers determines producer price, which becomes the reference in the exchange relation between merchants and consumers. Determination of the one therefore depends on the other and the absence of competition on one side of the market produces effects on the other side of market.

Every moment is linked. However, Steuart is not interested in the end result of the time period, but in the negotiation of each moment. The agent's behaviour is not based on a comparison between the profit rate and the interest rate. The object of trade for the industrious is not to obtain a gain that is proportional to the amount advanced, but rather to procure enough money to guarantee the necessary condition of duplicating production (investment) and also to enable consumption (Skinner, 1967; Akhtar, 1979; Tortajada, 1999)⁹. Therefore, price formation is a microeconomic analysis theory based neither on capital nor economic growth.

Let P_0^0 be the real value of the commodity. The manufacturer adds his gain (π_1^0) and the result is the producer price (P_1^0). The merchant does the same (π_2^0) and he sells the commodity (P_2^0) to consumers.

⁹ Skinner (1967) made use of this interpretation of profit in order to delineate Steuart's ideas on the relation between money and prices. On the other hand, Akhtar (1979) also takes this consideration in order to explain Steuart's macro ideas. See Tortajada (1999) for a more detailed explanation of this concept of profit in Steuart.

Period 0	Period 1
$P_0^0 = \text{real value}$	$P_0^1 = \text{real value}$
$P_1^0 = P_0^0 + \pi_1^0$	$P_1^1 = P_0^1 + \pi_1^1$
$P_2^0 = P_1^0 + \pi_2^0$	$P_2^1 = P_1^1 + \pi_2^1$

The exchange on a two-fold

Profit cannot disappear from the competitive process because the manufacturer still needs it for producing and the merchant still needs it for selling¹⁰. These profits alone can be influenced by competition (Steuart 1767, I: 266).

Aspromourgos' analysis¹¹ shows how the supply price approach is not sufficient to understand Steuart's argument; it is necessary to add "competitive forces acting upon supply price" (Aspromourgos 1996: 140). The exchange mechanism therefore becomes an essential element for the explanation of price determination.

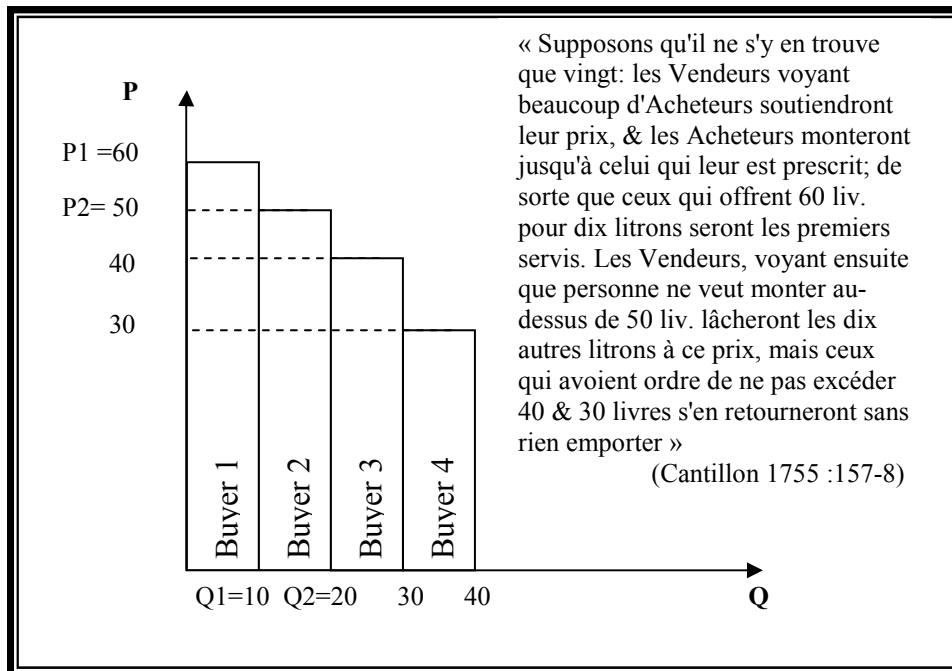
3.2. Price adjustment process

As we shall see, it is very difficult to find a connection between Steuart's adjustment process and the Walrasian tâtonnement. Even though Skinner's footnotes refer to Cantillon's chapter titled *Prix de Marché* in his edition of the text of Steuart's *Inquiry* (1966), and despite a longstanding presumption in the literature, there is no evidence that Steuart was familiar with Cantillon's *Essai* (Groenewegen, 1999). However, both authors describe a market cleaning adjustment process that does not necessarily lead to a unique exchange price.

Cantillon analysed the marketplace in order to put forward a description of price formation throughout a supply-demand mechanism. Excess demand leads to a series of exchange situations characterized by a drop in prices until the last unit of commodity is left. When the reverse holds true, the greater the demand, the closer the exchange price to the intrinsic value. The process ends when the last unit of commodity is left.

¹⁰ However we, like Meek (1967), do not find any formulation in Steuart of the concept of profit that Adam Smith was to popularise.

¹¹ Aspromourgos (1996) tackles Steuart' price determination theory by means of a wage equation. This static methodology points to the indeterminacies within Steuart's system: (i) the simultaneous determination of cost and price and (ii) real values also being a function of competition.



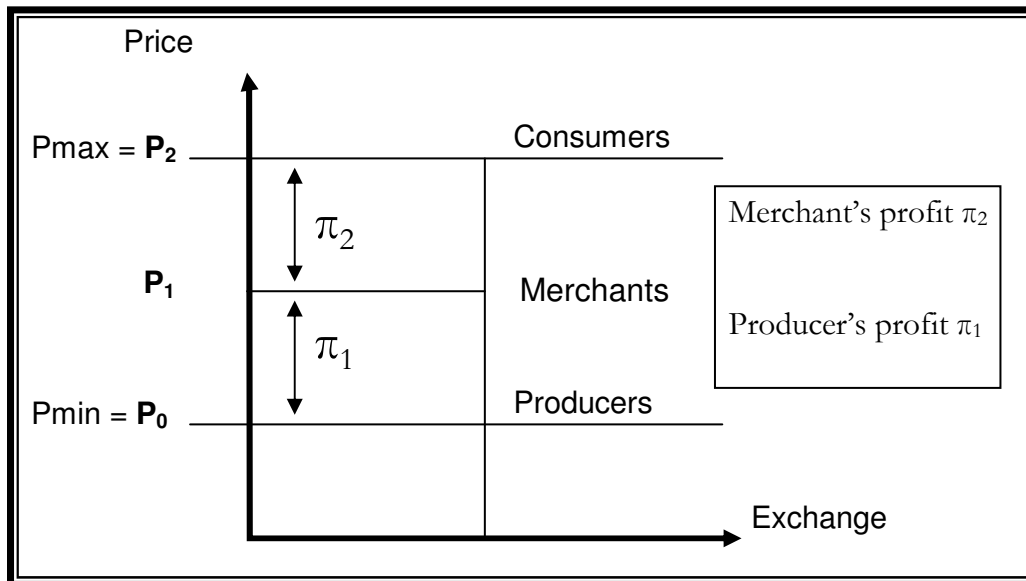
Cantillon's market cleaning adjustment.

Steuart is not interested in the law of one price but how market is cleaned. Steuart now introduces merchants according to their expected profits. It is the same cleaning adjustment process, although in this case several moments are involved. Initially, as merchants begin to buy –in relation to their expected gain– the prices of exchange drop until the last unit of commodity is sold –i.e. the *producer price* (P_1^0), below which there is no more supply. Later on, these merchants supply their products. The total amount of product will definitely be sold and its price –the *consumer price* (P_2^0)– never lower than the highest *producer price* plus a reasonable profit. Between these extremes –*producer price* (P_1^0) and *consumer price* (P_2^0)– there is a range of gains, depending on their “covetousness”; their view of profits and various circumstances.

It is impossible to suppose the same degree of eagerness, either to buy or to sell, among several merchants; because the degree of eagerness I take to be exactly in proportion to their view of profit; and as this must necessarily be influenced and regulated by different circumstances, that buyer, who has the best prospect of selling again with profit, obliges him, whose prospect is not so good, to content himself with less; and that seller, who has bought to the best advantage, obliges him, who has paid dearer for the merchandize, to moderate his desire of gain.
(Steuart 1767, I: 265)

Unlike the Walrasian tâtonnement, Steuart is not interested in determining the price that cleans the market. There are as many exchange prices between producer and merchants as

there are between merchant and consumers. Those prices arise as a consequence of the balance between “work and demand” and they capture different circumstances (eagerness, capabilities, expectations). This is the equilibrium of Steuart’s cleaning adjustment, which is described as a set of points in a Euclidean space (Karayianis 1987: 124). Therefore, the equilibrium prices –the producer price (P_1) and consumer price (P_2)– fluctuate between the no-more-supply limit and the no-more-demand limit.



The equilibrium of Steuart’s cleaning adjustment

Market equilibrium arises from the balance between “work and demand” when the result is a set of prices with no abnormal profits.

...when we say that the balance between work and demand is to be sustained in equilibrium, as far as possible, we mean that the quantity supplied should be in proportion to the quantity demanded, that is, wanted. While the balance stands justly poised, prices are found in the adequate proportion of the real expense of making the goods, with a small addition for profit to the manufacturer and merchant. (Steuart 1767, I: 289)

3.3. Double and simple competition

Double competition is the mechanism that guarantees price stability. Here, there are no reference prices that drive the agents towards a situation of positive/negative excess of demand. Steuart views exchange as a process that keeps the market clean. The market

reaches a final result for each exchange, called price, and each agent obtains his personal result, called profit or gain.

In Steuart, profits could be relative or positive, with no similar consequences on price stability. The former is obtained by means of a market cleaning adjustment and is not a threat to price stability. When the profit is positive, there is a problem of stability because both limits (P_0 ; P_2) are fluctuating.

Positive profit, implies no loss to any body; it results from an augmentation of labour, industry, or ingenuity, and has the effect of swelling or augmenting the public good. Positive loss, implies no profit to any body; it is what results from the cessation of the former, or of the effects resulting from it, and may be said to diminish the public good. Relative profit, is what implies a loss to somebody, it marks a vibration of the balance of wealth between parties, but implies no addition to the general stock. Relative loss, is what, on the contrary, implies a profit to somebody; it also marks a vibration of the balance, but takes nothing from the general stock. (Steuart 1767, I: 275).

In Double competition the final outcome of the exchange entails the participation of agents in the market. Of course, given that profit is a mark-up over costs, any variation in prices modifies their decisions within the exchange¹². Steuart's agent is heterogeneous (eagerness, capabilities, expectations) so that the same price does not have the same consequences for each one.

In all markets, I have said, this competition is varying, though insensibly, on many occasions; but in others, the vibrations are very perceptible. Sometimes it is found strongest on the side of the buyers, and in proportion as this grows, the competition between the sellers diminishes. When the competition between the former has raised prices to a certain standard, it comes to a stop; then the competition changes sides, and takes place among the sellers, eager to profit of the highest price. (Steuart 1767, I: 263)

Once the market is clean, the agents decide to participate in the following exchange, according to the gains obtained. The greater the number of sellers with a reasonable gain (because of a high price) the greater the number of suppliers for the next market (a great supply)¹³. Given that the number of buyers may also have decreased (a small demand),

¹² "Trade produces many excellent advantages; it marks out to the manufacturers when their branch is under or overstocked with hands. If it be under stocked, they will find more demand than they can answer: if it be overstocked, the sale will be slow." (Steuart 1767, I: 242).

¹³ Demand (or supply) is great or small depending upon the number of buyers (or sellers). Therefore, the consequence of a great demand (or supply) is stronger competition. On the other hand, demand (or supply) is

competition will be stronger on the side of the sellers and the final outcome of the exchange will be a lower market price. As the price drops the demand becomes higher until the entire amount supplied will be sold. The fewer the sellers with a reasonable gain (because of a low price) the fewer the suppliers for the next market.

The smooth vibration of prices demonstrates that the mechanism of Double competition is operating and therefore the equilibrium is stable.

It is from these principles, that competition among buyers and sellers must take place. This is what confines the fluctuation of prices within limits which are compatible with the reasonable profits of both buyers and sellers. (Steuart 1767: I, 266).

When competition cannot take place on both sides of the market, Single competition is in operation. In the event of a market disturbance, there are a number of elements leading to price convergence. Without them, once the price goes beyond the limit of the Euclidean equilibrium, Double competition does not operate and we move to Single competition. The result is that the price diverges from equilibrium and the number of exchanges is insufficient to clean the market (Steuart 1767, I: 292). Single competition is very likely in the absence of either merchants or uncertainty or reasonable profits¹⁴.

Merchants guarantee a rapid response in keeping with the evolution of the price. If the price exceeds the equilibrium because the incentive for a price rise has no immediate consequences on the number of sellers (or buyers), Double competition is unable to return the market to stability. Therefore, delay is no trivial matter in Steuart's concept of stability.

Steuart considers that uncertainty allows a smooth price fluctuation. Given a smaller quantity supplied and quantity demanded, price movement benefits the short side of the market. The absence of uncertainty ensures the price fluctuates until it reaches its limits and the agents are able to identify either the real value or the purchasing power. Price stability requires competition within the short side of the market to begin before the price reaches its limits.

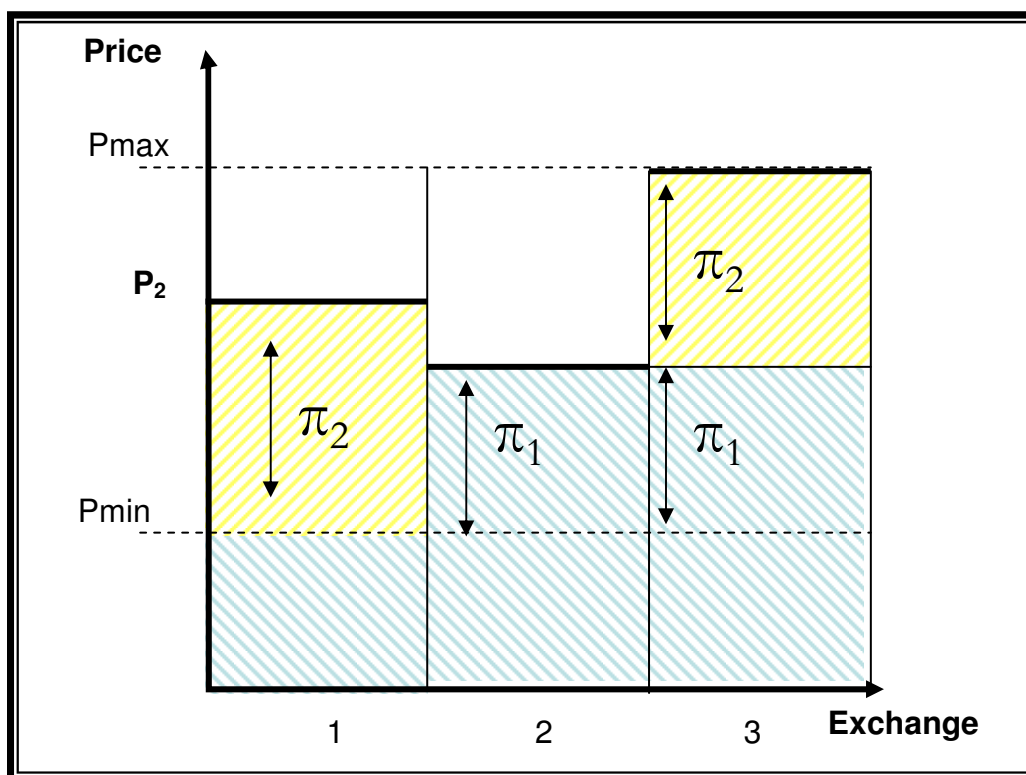
On the other hand, relative losses may expel too many agents from the exchange. If the competition between the agents is too fierce, they leave the exchange. The

high or low depending on the exchange rate, not according to the number of buyers (or sellers). See Steuart (1767, I: 233-4).

¹⁴ "The case is hardly supposable among merchants who buy and sell with a view to profit; but it is absolutely supposable, and that is all, when the direct consumers are the buyers; when the circumstances of one of the parties is perfectly known; and when the competition is so strong upon one side, as to prevent a possibility of its becoming Double, before the whole provision is sold off, or the demand satisfied" (Steuart 1767, I: 270).

positive/negative excess of demand does not disappear as a result of a high/low price but because of a small supply (or demand). As a consequence, prices do not change nor does competition vibrate.

Without a reasonable gain for producers, the output is insufficient (case 1). Without a reasonable gain for merchants, the quantity brought to market is insufficient (case 2). It is also possible that both profits (π_1^0, π_2^0) increase until “a part of the goods is not sold”, and then competition between consumers will not start again (case 3). In these cases, either the competition does not vibrate or the market price returns to the equilibrium.



Single competition and Double competition

In Stuart, a monopolistic situation may be the consequence of the development of economic activity. Unlike in Adam Smith, the Statesman is not the origin of, but the solution to monopoly. The Authority has to stay in the market and introduce competition until Double competition is achieved.

and if such a case can be put, where the rising of prices cannot stop demand, nor the lowering of prices augment it, in such cases double competition does not subsist; because these circumstances unite the most separate interests of buyers and sellers in the mercantile

contract, and when upon one side there is no separate interest, there can then be no competition. (Steuart 1767, I: 271)

In this respect at least, Steuart was much more in tune with his time than the literature apparently suspects.

4. *The case of long-run fluctuations*

Once trade exchange is the norm, the first step of this stratified process –real value– depends on the exchange relation between merchants and consumers¹⁵. A stable price allows merchants and producers to estimate opportunities for profit, and consumers may also calculate their purchasing power. In this way, producers will forecast the whole set of prices, and then the real value (production costs) is stable.

Consumers who frequently change the proportion between the price and value of the product constantly disturb the equilibrium price –sometimes they win and sometimes the producers make profits¹⁶. Recovering stability is the return to a *reasonable profit*. However, if the market is unstable, merchants do not know how to bring this stability about. Maintaining a stable price depends on an authority outside the market, although merchants are essential elements that help to achieve it.

Price stability may disappear because of both an excess and a shortage of demand (Steuart 1767: 291). As Skinner (1967: 278) demonstrates, in a short time period the influence of demand is more important, with regard to the determination of price¹⁷. However, “the longer the period, the more important the influence of supply”.

Such price fluctuation requires the Authority’s guidance in order to recover stability. However, the Authority has to choose the measure, depending on which obstacles are preventing the convergence process.

¹⁵ Aspromourgos (1996) demonstrates the inadequacy of Ricardo-Marx-Sraffa’s approach for explaining Steuart’s theory of price determination. This system “renders real value [including profit as a surplus wage] and price identical, which is inconsistent with Steuart’s view” (Aspromourgos 1996: 140).

¹⁶ Consumers’ losses are gains for merchants when the supply of goods falls, while consumers’ gains are not losses for merchants when the supply of goods increases, because they transfer the losses to the producers by means of their market power (Rebeyrol, 1985).

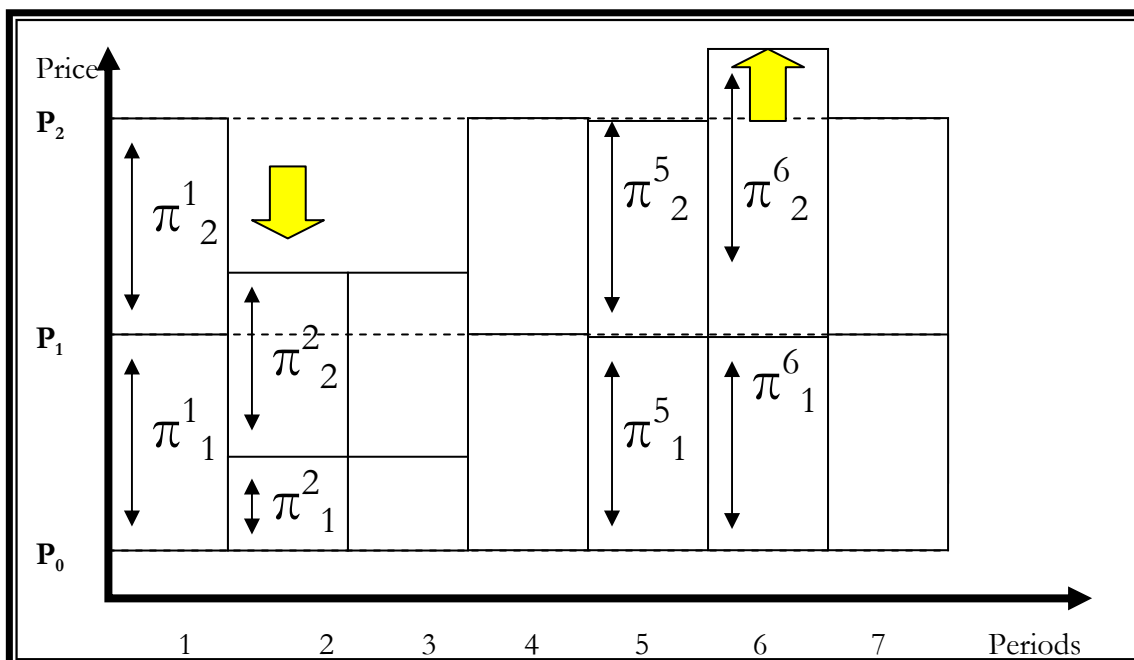
¹⁷ There is an extensive literature that recognizes the effects of short-run disequilibrium in the long run in Steuart (Sen, 1957; Meek, 1967; Skinner, 1981 and Karayiannis, 1987). The balance of “work and demand” is able to change over time, with permanent consequences for the real value of goods and services.

4.1. Watching the limits

In the first instance, either the excess of demand or the excess of supply may move prices further away from the equilibrium: (i) the value of the merchandise (period 2) or (ii) the consumer price (period 5). These two cases replace the reasonable gains with compound profits (partly relative, and partly positive).

In the absence of Double competition, the *statement's care* helps to stabilize the limits by means of regulating the output. This supply-side policy guarantees the stability of both the value and the consumer prices, although it allows the producer price to gently vibrate.

In period 2, a shortage of demand will cause the consumer price to fall below the equilibrium. In this case, the problem for price stability comes from an absence of competition among consumers. In the short run, the drop in consumer price does not involve greater demand. If demand does not enter into competition, prices will not return to the equilibrium. "The effect of this is, that the workmen fall into distress, and that industry suffers a discouragement; and this effect is certain". In the long run, competition among producers will cause the price to fall below the real value. Then Double competition no longer works because "the balance must vibrate and no lost must be found on either side" (Steuart 1767: 294).



Case 1: The absence of Double competition

The Statesman should reduce “the number of hands into a new channel”. Then, competition vibrates from the supply to the demand and the price increases until the equilibrium level is reached (period 4). Although price fluctuation has been avoided, Steuart considers this to be a symptom of decaying trade.

The scale of demand can also preponderate (period 5). “When the commodity is not a matter of great necessity”, competition might not occur among the demanders. In the short run, the positive excess of demand does not disappear because of a high price but because of a small demand. Given that prices do not change, Double competition does not increase the amount of commodity needed to supply the demand. In the long run, either the *consumer price* increases or a part of the demand will look to a foreign market.

that is, the rise in the price, or the call of a foreign market, will effectually cut off a proportional part of the demand, and leave the balance in an equilibrium, disadvantageous to trade and industry. (Steuart 1767, I: 294).

The Statesman should give encouragement to manufacturers to enable them to reduce the producer price. With a reasonable gain, the amount of suppliers increases and competition vibrates from the demand to the supply. Therefore, the price will fall until equilibrium is reached (period 7).

Double competition needs the supply-side policy in order to start the convergence process, and the Authority keeps a watch on the limits (consumer price and value). This is the case in the grain market, where Steuart proposes a series of economic policy measures to adjust supply (see Augier and Théré, 1999).

4.2. Watching the gains

However, the Statesman cannot always directly modify the output. Given an inadequate supply-side policy, the Statesman pays attention to both the merchant’s profit and the producer’s profit.

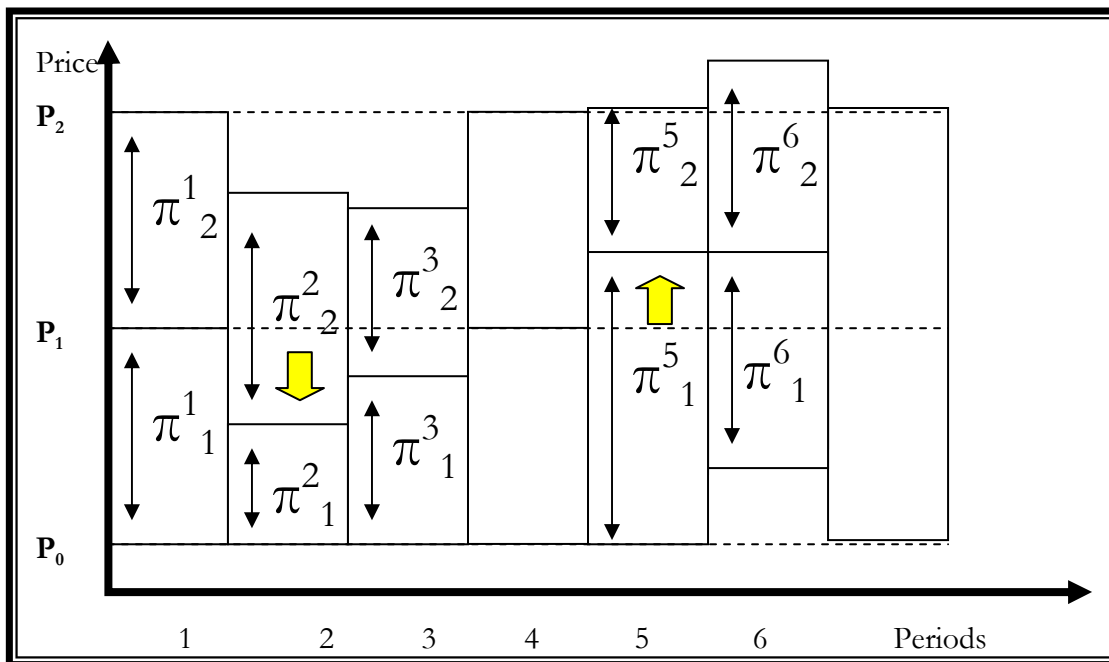
In the case of a shortage of demand (period 2), *consumer price* falls. However, the number of suppliers does not decrease because merchants have transferred their *relative losses* to the producers. In the short run, the consumer price does not return to equilibrium because the excess of supply does not disappear. Moreover, producers’ profits do not return to the reasonable level because merchants do not compete.

The Statesman avoids a discouragement of the supply by lending assistance to the producers.

whether the imprudence only of the workmen has made them produce their work unseasonably; in which case proper information and even assistance should be given them, to prevent merchants from taking advantage of their want of experience: but these last precautions are necessary in the infancy of industry only. (Steuart 1767, I: 271)

He supports manufactures recovering a reasonable profit at the expense of reducing merchant's profit. As merchants leave the exchange, competition increases among consumers and price returns to the equilibrium level (period 4).

In the event of an excess of demand (period 5), competition does not vibrate from the demand to the supply and initially the consumer price does not change. Competition between manufacturers is not intensified and their profits exceed the reasonable level. In a short time, they become consolidated and transformed into the intrinsic value of the merchandise. This change of consumption pattern engages them in "the bringing down of their profits and the throwing the workmen into distress" by means of a demand-pull inflation.



Case 2: The absence of market transparency

The Statesman should increase the supply until competition vibrates from the demand to the supply. In this way, the price will fall until equilibrium (period 7) is reached. The Authority controls the gains in order to guarantee the stability of the producer price (P_1), although it allows consumer price and value to vibrate gently.

5. Conclusions

Unlike Adam Smith, the theoretical system set out by James Steuart explains an economic reality where freedom and competition are not synonymous. The competitive market is not stable in the face of any disruption, nor can it guarantee the appearance of non-competitive situations. Therefore, a scenario of imperfect competition may arise from the free functioning of the competitive market. It is the Authority, and not freedom, that guarantees the competitive process.

But Steuart does not develop a theoretical system simply to justify an intervention by the Authority. His aim is to explain the behaviour of prices, for which he uses the best theoretical tools, validated by the economic reality of his time. His conclusion is that the stability of market equilibrium is not guaranteed by the rate of return, but by the correct functioning of an exchange process known as Double competition.

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