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1. Introduction

The relations between economic history (EH) and history of economic thought (HET) are the subject of my presidential address, prompted by recent developments in the organisation and funding of research. As is well known, grants, career advancement and recruiting have, in many European countries and elsewhere, become increasingly subject to control procedures and semi-automatic rules that are supposed to enhance research productivity and avoid waste and favouritism. Every field of research has its committee of expert "controllers", but, to avoid overprotected market niches favouring collusive behaviours, the fields of research have been very broadly defined. HET represents too small a portion of the vast field of economics to constitute an independent discipline and so – to reach an acceptable size – it has often found a place in the same subfield as EH, and subject to the same panel of evaluators. Such is the turn of events in Italy, where we now have a single discipline embracing EH and HET, while the European Research Council classification has made room within "economics, finance and management" for the sub-panel "SH1_14 history of economics and economic thought, quantitative and institutional economic history". Similarly, the French *Centre national de la recherche scientifique* (CNRS), in its classification of journals in economics and management by "*domaine* (field)", has a class "History of Economic Thought, Economic History, Methodology". I suspect that behind this placing there has been precious little serious thought about the affinity between the two subjects on the part of the national or European bureaucracies and their – predominantly mainstream – economist advisers. This is probably a manifestation of what has been termed the economists' "physics envy" (Hodgson 2001): everything containing the word "history", re-evoking the

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historical specificity of social science, is seen as alien and bundled together on the basis of its diversity (a bit like those racists who see as equally and indifferently "black" anyone who has a dark skin, whether Tamil, Kenyan or Australian aborigine).

It is a paradoxical situation because, apparently, never before now does the history of ideas and facts seem to have taken such diverging paths. It is hard to generalise, because just as there are various approaches to HET, so there are different ways of conceiving EH, and this discipline is undergoing a "deep identity crisis" (Boldizzoni 2011, p. 4). However, the immediate impression, at least, is that economic historians, as a consequence of the spread of the US-born "New Economic History" or "cliometrics" worldwide, seem to see their mission as what can be defined as "the task of providing economists with data". Their interest in facts takes the form of research in quantification of phenomena, while the ideas behind the interpretation and, in some cases, even generation of these facts seem to have disappeared from the economic historians' spheres of interest. On the other hand, the historians of economic thought, when interested in reconstructing the context in which the ideas and theories developed, have focused on the cultural and scientific context – more on intellectual history than on EH. The famous "historical framework", once so dear to a certain Marxist tradition, has left no heirs. In conclusion, while historians of economic thought and economic historians often appeal to economists, urging the relevance of their work to developments in economic science, they never appeal to each other, stressing the importance of collaboration.

I sought confirmation of this impression of scant reciprocal interest in the by-now-omnipresent bibliometry. Tapping into the *EconLit* database of the American Economic Association, I searched out how many publications – books, essays, articles and so forth – bore subject matter indication as both HET and EH. I limited my search to the most recent times and to the nearly five and a half years as from 2007, thereby singling out 232 studies, accounting for 5.5% of the HET production registered by *EconLit* and 3.2% of EH production. These are small percentages. Are they reliable? Hardly. As we know, it is the author who indicates what the subject of his/her work is. For some, even the biography of an economist is EH, while for others even discussion of economic policy measures may not qualify as such. On closer examination, therefore, these data are indicative more of how many authors deem their research production relevant to both HET and EH than of how many works can truly be considered such on the basis of more uniform and objective criteria. We may perhaps find more evidence on relations between the two disciplines by restricting the field of observation solely to journal articles indicating both HET and EH as subject matter (from the year 2007 to the present day they come to 146) and considering where they find publications. By doing so, in fact, we can at least count on the opinion of the editors, for, if they accept an article, they must surely deem it relevant to the specialist interests of their journal. The evidence is in fact that most of these bipartisan articles were published in generalist journals. Less than a third of them (31%) came out in journals specialised in HET, and a mere 7.5% (11 in over 5 years) in journals specialised in EH. We can conclude that the more closely the EH and HET journals pursue specialised issues, the greater grows the distance between the two subjects.

My worry is that this distance may grow to the extent of becoming an unbridgeable abyss. Our understanding of the past would be that much poorer. EH would suffer because, to recall one of the most famous observations by Keynes, "the ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else" (Keynes 1973, p. 383). HET would suffer because there are theories that cannot be thoroughly understood without a knowledge of the historical context they are meant to explain or modify. But enough of arguing in general terms. Let me try to illustrate this point with an example.

2. The trivialization of Ricardo's theory of money

The fact that the example I choose to illustrate how a knowledge of EH can help in the understanding of a theory is drawn from monetary theory is not without significance. In a celebrated text dating to 1967, John Hicks pointed out that monetary theory "belongs to monetary history in a way that economic theory does not always belong to economic history" (Hicks 1967, p. 156). There are two reasons for this. In the first place, "monetary theories arise out of monetary disturbances" and, although they aspire to generality, they almost always emerge from the need to get to grips with an urgent contemporary issue. Second, the very object of theory here, that is, money, is in constant evolution as "part of a wider development, the development of a financial system" (Hicks 1967, p. 158).

My example has to do with one of those turning points brought on by "monetary disturbances" and deals with the monetary theory of David Ricardo. If Hicks is right, and interesting times favour the birth of interesting theories,[1] Ricardo clearly had luck in this respect. When he wrote his

1 "You do not get much of a kick out of bimetallism as you do not get brilliant answers to a dull question-paper" as Hicks (1967, p. 157) put it, explaining why, as he saw it, the times in which Marshall lived had not made a great monetary theoretician of him.

first contribution on monetary problems in 1809, for the first time in the history of the western countries, the money involved in the large transactions consisted almost entirely of the liabilities of a private bank in the form of the banknotes issued by the Bank of England as a monopoly throughout the London area; according to the Bank's charter, the banknotes could be converted into gold but, as from 1797, their convertibility had been suspended. The events have been reconstructed many times by various authors (Fetter 1942; Viner 1937; Sayers 1953, to name just the classics) and are very well known: after a relative lull apart from one interruption, 13 years after the suspension of cash payments, in 1809, the market exchange rate of the pound sterling fell, and the market price of gold bullion rose well above its mint price.[2] The gold coins – the guineas – disappeared from circulation, because an absurd situation had come about in which one ounce of gold in coins, if exchanged at their face value, could not buy one ounce of gold bullion on the market. The commentators were bewildered: there was no telling whether it was a transitory problem due to exceptional circumstances (war, bad harvests), or one of those notorious phenomena of monetary disorder that had for centuries been regularly cropping up with metallic currency (when the currency was debased and the coins lighter than they ought to be, the price of the metal on the market increased). Or might it not, perhaps, be a new phenomenon with a major role being played by the massive loans the Bank had been making to the government to finance the war, with the consequent issue of bank notes? As everybody knows, this was the subject of the famous Bullion Controversy, the "greatest of all monetary debates" as Hayek once called it (Hayek 1939, p. 37). The intellectual challenge was enticing but, according to an interpretation still widely accepted, Ricardo failed to rise to it. The theory still frequently attributed to him is neither original (a mixture of Hume and Smith) nor apt to interpret the situation, Ricardo being imputed with having adopted a dogmatic and extremist position, victim of his "Ricardian vice". Ricardo, the story goes, stuck to his quantitative theory in its strictest form, according to which prices increase if and only if the supply of money increases, *coeteris paribus*. He is seen as an intransigent bullionist, ready to accept paper money but only because it was a cheaper means of payments, and only if the paper money behaved like gold coins. It is a view of Ricardo that casts him in the role of forerunner of many things – the Currency School, the idea that there must be a fixed ratio between reserves and banknotes (and hence the reorganisation of the Bank of England with the 1844 Peel Act), the myth of the Gold Standard

2 Historically, the mint price was the number of units of account into which a given weight of the precious metal was coined.

as a system in which the imbalances in the balance of trade automatically adjust through variations in prices brought about by the flows of gold converted into money. Above all, he is said to have opposed attributing money with the nature of an institution, favouring that of a commodity like any other, subject not to human intentions but to the same natural laws of the market that all the other commodities respond to, and which the new science of Political Economy was investigating with the aim of helping governments to respect them and removing any obstacles that might get in their way.

When, together with Cristina Marcuzzo, I began to study Ricardo's monetary theory over 20 years ago (Marcuzzo and Rosselli 1991), we did so because there were many elements in this reconstruction that did not convince us. There were contradictions within the theory – how could Ricardo, with his characteristic rigorous logic, have maintained that the value of money depended on the value of gold, which was determined on the basis of the cost of production, and at the same time have held that its value was determined by its quantity? Our doubts were also aroused by elements suggesting a somewhat ingenuous approach. Could Ricardo, who had proudly proclaimed before the Lords Committee on the Resumption of Cash Payments "I have been all my life in the Money Market on the Stock exchange" (Ricardo, *Works and Correspondence*, V, 416[3]), and who had a thorough knowledge of the City, have remained unaware of the changes in the velocity of circulation of money which Thornton had described so well before him? Could he really have supposed that every increase in prices was due solely to increase in the quantity of money, and was to be treated with restrictive monetary policies, with the risk of deflation? Are we to suppose, in short, that Ricardo could do no better than advocate mechanical application of the quantity theory of money and Hume's price-specie-flow mechanism?

It is beyond my scope here to illustrate the alternative interpretation of Ricardo's monetary theory[4] which was prompted by these initial doubts, and indeed by the example set by Sraffa, who had shown up the misunderstanding of Ricardo's theory of value perpetuated in the Marshallian tradition. My aim is to demonstrate that knowledge of EH played an important role in the work of alternative reconstruction. I will confine my exposition here to a few basic findings, while pointing out that the last few years have seen many contributions to this labour of reconstruction of Ricardo's

3 From now on, references to Ricardo's works will be to Sraffa's edition (Ricardo 1951–73); the Roman numeral indicates the volume and the Arabic numeral the pages.

4 It was presented in Marcuzzo and Rosselli (1991), (1994a) and (1994b).

monetary theory along the same lines (see Deleplace 2008, 2012; Diatkine 2008).

3. A reconstruction with the help of EH

Ricardo's theory of money is founded on the concept of monetary standard. Gold was the standard of money. The sterling price of gold measures the value of the basic monetary unit. When the sterling price of gold increases (£1 buys less gold), money is said to be depreciating; when it decreases (£1 buys more gold), money is said to be appreciating.

The standard, by measuring the appreciation or depreciation of sterling, allows for a distinction which plays a crucial role in the theory, at both the positive and normative levels. Indeed, changes in the prices of commodities (or, which amounts to the same thing, variations in the purchasing power of sterling over commodities) are the result of two combined effects: variation in the purchasing power of sterling over gold and variation in the purchasing power of gold over commodities. In other words, each price P can be expressed as

$$P = \text{£}/\text{commodity} = \text{£}/\text{gold}^{*}\text{gold}/\text{commodity}.$$

In Ricardo's opinion, the first ratio (how many £ per one ounce of gold) should always be kept to par with the mint price. Its deviations from the mint price measure appreciation or depreciation of sterling and depend entirely and exclusively on the quantity of money. Should depreciation occur, there is only one way to correct it and that is through contraction of the quantity of money.

In contrast, the second ratio (the relative value of gold) depends on many factors. It may change either because the value of gold has changed due to changing conditions of supply and demand for the metal, or for some other cause which has affected the commodity under consideration or all the commodities in general. Nothing can and should be done about it, since it is the result of the natural working of market forces. In conclusion, in Ricardo's view, rises in prices may be of monetary origin and stem from a depreciation of the sterling, or they may be due to real causes. In the former case, they can be corrected by decreasing the quantity of money; in the latter case, they cannot and should not be prevented. Confusing the two causes is a source of many mistakes and misunderstandings (see, for example, IV, 330; V, 166).

The same distinction holds at the international level: the *price* of gold is the same in every country, since arbitrage in the international market exploits any difference – above transport and transaction costs – that may arise between the domestic and foreign price of gold; but we cannot say that the *value* of gold in terms of commodities is the same everywhere. There is no market in which this equalisation is carried out. "Value of gold" itself is a vaguer concept hard to define even within a single country and which cannot be translated into one single number for measurement (IV, 59).

All Ricardo's proposals for reform of the monetary system are based on his definition of depreciation, and on the assumption that the difference between the market and mint price of gold measures it. This difference constitutes a signal that must be followed by the monetary authority – whichever it may be, the private Bank of England or the commissioners of a public institution – for correct management of the currency. If the currency is correctly managed, the difference must be zero. Ricardo's plans for reform of the monetary system in England underwent several changes, but they all shared the fundamental feature that the quantity of money must be regulated by a price signal[5] – the price of gold bullion on the market which should be kept to par with the mint price – and not adjusted to a pre-established amount, since it cannot be judged whether the quantity of money is excessive or insufficient on the sole evidence of variations in the quantity of banknotes in circulation. As Ricardo said, "regulating their issues by the price of gold the commissioners could never err" (IV, 293). There is no evidence for the "hard-line version" of the quantity theory that many interpreters of Ricardo attributed to him (for example, Blaug 1995, p. 31).

Money is not a commodity; it is the standard that must be a commodity. The quality that makes gold the commodity best suited for the role of standard of money is that its value is the least subject to variations since, if the value of the standard fluctuates, all prices will be affected. The search for an invariable measure of value, which Ricardo pursued to the last days of his life, was not just a chimera, but was driven by the need to find the best standard for money.

Ricardo thought that the value of gold was relatively constant, since its conditions of production, which in his view determined the value of any commodity, were not subject to dramatic changes. However, the invariability of the standard was not "natural", but had to be the result of institutional provisions. Ricardo's favourite plan for monetary reform – the Ingot

5 For the sake of simplicity, I focus on the difference between the market and Mint price of gold. Deviations of the market rate of exchange from par larger than gold transaction and transport costs are equally relevant and discussed by Ricardo; however, this signal is more difficult to decipher.

Plan – included provisions that no gold coins be in circulation and that convertibility into gold bullion be limited to large sums. It has often been said that Ricardo favoured paper over gold as means of payments to save resources otherwise used to purchase the necessary gold – a position held by many others before him, including Smith. It is true that Ricardo says "currency may be considered perfect, of which the standard is invariable, which always conforms to that standard, and *in the use of which the utmost economy is practised*" (IV, 55; italics added). However, the Ingot Plan was not just a way to save resources. It also served the aim to safeguard gold against such fluctuations in its value as might derive from variations in demand prompted by the very fact that it had been adopted as the standard.[6] A commodity cannot become money without partially losing its nature of commodity. Thus, the fact that, despite its monetary uses, gold behaved as a commodity like all the others, with a value determined mainly by production conditions and not influenced by abrupt variations in demand, was to be the result of a monetary system designed to this end.

If this reconstruction of Ricardo's monetary theory is correct, what is the contribution of EH to it? Could it be arrived at on textual evidence alone, or does a knowledge of the working of the economic system in Ricardo's times constitute a significant contribution to it?

I see EH as the source of three major contributions to this reconstruction (and it is obvious here that my view of EH includes more than reconstruction of data). The first contribution is obvious. Without some factual knowledge it is easy to misinterpret the text. Several examples of these misinterpretations can be found in the recent and less recent literature and can be derived from imperfect or incomplete knowledge of the institutional setting. Particularly important is a knowledge of the workings of the market where the rate of exchange was determined. This was the market for bills of exchange denominated in foreign currency, where arbitrage operations in the price of gold between London and foreign markets were constantly carried out by a few specialised agents with a network of correspondents actively engaged in gathering information on market conditions. Precious metal flows were brought on by these bullion merchants whenever market conditions made them profitable, or in other words whenever it cost less to obtain foreign currency by shipping gold than by buying a bill of exchange in the market, due account being taken of transport and transaction costs. Gold was exported only when it was the cheapest way to obtain foreign currency, or, as Ricardo said, when it was the

6 Ricardo condemned the incautious purchases of gold by the Bank of England in preparation for the return to convertibility, since they determined an increase in the price of gold and aggravated the depreciation of sterling (see, e.g. IV, 225).

"cheapest exportable commodity", an expression which has been misinterpreted to mean that gold had the lowest transport costs. Mistakes of this kind are easily made, given that Ricardo took for granted that everybody knew how the market for gold and bills of exchange worked – and indeed nobody who was active in the City of London could have failed to. Thus, the profitability conditions for gold flows are not described in detail by Ricardo, although they are implicit in many of his calculations.[7]

Another, subtler way in which knowledge of facts helps in reconstruction of Ricardo's monetary theory concerns the implicit assumptions of his theory which reflect the behaviour of some of the agents involved. The best known of these assumptions lies behind Ricardo's acceptance of Say's law: at the dawn of capitalism, those who save are the very same people who invest and therefore an act of saving is the same thing as an act of investment. Similarly, an implicit assumption about the observed working of the money market lies behind Ricardo's belief that an increase in the quantity of money has a direct impact on the rate of exchange, even before any variations in the prices of commodities occur (Rosselli 2008). It was an observed fact that the Bank of England increased the supply of money either through loans to the Government or by discounting bills of exchange originating mainly from international trade. A generous discount policy on the part of the Bank of England implied more liquidity for the merchants engaged in the import–export of commodities and hence in the demand for foreign means of payments, with an impact on the rate of exchange.

However, there is a third reason in favour of a reading of Ricardo's monetary works with an eye to the historical background, and it concerns our assessment of the position that Ricardo occupies in the development of monetary theory. As I said, many commentators have focussed on Ricardo's alleged offspring: the Currency School, the British Monetary orthodoxy and so on. Here I would like to focus attention on what Ricardo put an end to. I argue that by advocating the role of the standard and identifying the unit of account as a given amount of the metal Ricardo celebrated the demise of the *ancien régime* monetary system, which had held sway for over 10 centuries. However, at the same time he was the one who understood it best. This is what I mean to argue now.

4. The forgotten characters of money in the *ancien régime*

The literature on money in pre-classical times is extensive. We – contemporary economists – may have got used to introductory courses in economics

7 This led some to conclude that Ricardo ignored the profitability conditions for the flows of precious metals (De Boyer 2007, 2008).

where the word "money" appears – if it does at all – right at the end of the textbook, but for centuries the pre-classical economics literature spoke of little else. I am not only referring to the towering figures of Cantillon, Galiani, Hume or John Law, but to scores of lesser known authors who were merchants, political reformers and philosophers. Interpretation of the numerous works that appeared in the pre-Smithian era has always been a serious challenge for scholars. Besides the fact that it calls for a knowledge of the particular historical circumstances, when the subject of money is approached in more general terms all the works present striking similarities in terms of the issues they address and the examples and literary sources they employ, and in consequence the originality of an author emerges with difficulty. Classifications offer a useful compass in such a complex environment. The most famous and lasting of them, which it has become customary to refer to when discussing pre-Smithian ideas about money, is the distinction drawn by G.F. Knapp and made famous by Schumpeter in his *History of Economic Analysis,* between metallism and cartalism. According to this view, there are two approaches to the theory of money, namely metallism and cartalism, both of which can be either theoretical or practical. Theoretical metallism is defined as "the theory that it is logically essential for money to consist of, or to be 'covered' by, some commodity so that the logical source of the exchange value or purchasing power of money is the exchange value or purchasing power of that commodity, considered independently of its monetary role" (Schumpeter 1954, p. 288). Practical metallism is the principle that, whatever the source of the value of money, the monetary authority should keep the monetary unit firmly linked to a given quantity of some commodity. Theoretical and practical cartalism are the corresponding negatives. Any combination of theoretical and practical positions is possible. Schumpeter himself, however, warns us that the distinction is not as clear-cut as it might appear at first sight, since "views on money are as difficult to describe as are shifting clouds" (ibid, p. 289). Schumpeter acknowledges that the distinction between metallist and cartalist positions admits many nuances that become all the more evident the more an author's ideas are investigated in depth, and in the pages of his *History,* examples are frequent of authors who do not seem to pursue either position consistently.

Anybody who has tried to apply this distinction to a specific author of the seventeenth or eighteenth century faces the same problem. It is not unusual to find an author stating that money draws its value from gold and not gold from money – a typical metallist statement – while, a few pages later, we see the same author acknowledging that the purchasing power of a coin does not necessarily change if its metal content varies, thereby accepting a purely conventional nature of money – a typical cartalist position.

It is tempting to think that these contrasting positions which appear to us – and to Schumpeter – as inconsistencies are not due to the logical feebleness of the authors, but due to our obliviousness of the dualistic nature of the *ancien régime* monetary system. The so-called "inconsistencies"[8] are not in the theory, but derive from our difficulties in conceiving a system characterised by the coexistence of two kinds of money and where money does not perform all the functions traditionally attributed to it as unit of account, means of exchange and store of value. It is another case where neglect of the historical background affects our interpretation of the theory, holding us back from full appreciation of the contribution these authors made to our understanding of how a monetary economy works.

In the *ancien régime* there were two kinds of money: the "ideal" money used as a unit of account and the real, physical money used as means of exchange. The former was more important, because all contracts – rents, wages, taxes – were expressed in ideal money. Prices were long term, relatively stable, determined by customs and law and not spot prices determined on the market. The incomes of the components of the society were fixed in terms of ideal money so their relative positions did not change, but these incomes were paid in actual coins. It was the prerogative of the sovereign to fix the value of coins in terms of ideal money by decree or, in other words, to determine how many actual coins would discharge a debt. The value of coins was by no means constant, but varied according to the needs of society "with the purpose of maintaining unchanging social relativities" as De Cecco puts it (De Cecco 2007, p. 60). The same coin – the same metal, weight and fineness – could, if required by external circumstances, be set by decree at a higher or lower value in terms of imaginary money (this practice is called "enhancing of the coin"). At the same time, once the value of a coin had been fixed by decree, that value was maintained even if the coin lost part of its metal content (its "intrinsic value"), by natural consumption, by clipping or because the Mint had been more or less secretly ordered to change the number of coins into which a given amount of metal was divided, or to modify its purity (this latter practice, however, unlike the "enhancing of the coins", which was a legitimate prerogative of the sovereign, was always condemned almost unanimously by contemporaries because it put the sovereign on the same footing as counterfeiters[9]).

8 For a discussion of these "inconsistencies" in the theory of Ferdinando Galiani, see Rosselli (2012).

9 See the observation by Bernardo Davanzati: "Should the People be thus cheated under the public Faith that ought to protect them, they might say as the Wolf did once to the Shepherd who devoured the Sheep. If I had done this, good Mr Shepherd, you would cry, help, help, and raise the Country to pursue me." (Davanzati 1997 [1588], p. 380)

Consequently, in the domestic circulation, no equivalence between unit of account and weight of fine metal was explicitly established by law and money, even in the form of coins, and it was not fit to transfer value over time. Two important functions of money – that of store of value and of standard of deferred payments – could not be fulfilled.

Not all exchanges, however, took place within the boundaries of the same state. A small community of merchants was engaged in long-distance trade (to use Braudel's terminology) with people belonging to different political societies. There, coins were not accepted at face value, but were weighed and their content in terms of fine metal carefully evaluated; they had to function as a universal commodity and, to do so, they were not to be subject to the same changes in their material nature as the small coins used for domestic circulation. Made of gold, or heavy silver coins, some even retained constant weight over the centuries. Their value in terms of units of account – their so-called "extrinsic value" – consequently had to be adjusted to the market value of the metal, given the continual depreciation of the unit of account.

The metallic currency, then, was composed of two kinds of coins. First, there were the copper or light silver coins for domestic circulation, which preserved their extrinsic value because they were used to buy goods for immediate consumption, and to pay wages and taxes, which were fixed more by customary laws than by market laws and remained relatively stable; thus, it was the stability of their extrinsic value that mattered. Their intrinsic value, in contrast, changed dramatically over time and the money for domestic circulation was in fact a metallic fiduciary money of variable metal content. Second, there were the gold or heavy silver coins for long-distance trade, where commodities were bought for further exchanges and where the stability of the intrinsic value was all that mattered. These coins preserved their intrinsic value but were of variable extrinsic value.

The two currencies served different purposes and obeyed different principles, while high costs and regulations prevented transformation from one into the other. They were complementary currencies and not substitutes (Fantacci 2005).

This peaceful coexistence began to show signs of crisis in the seventeenth century, and the signs became ever more evident. Several reasons have been suggested for this: the increasing openness of the economy, the growing impact of foreign trade on the course of domestic trade where prices began to be determined in real markets, the changing political structure of society, the rebellion against the "enhancing of the coin", perceived as an unfair tax which accrued to the privileges of the sovereign, or, as De Cecco (2007) suggests, the creation in the eighteenth century of an international market for agricultural raw materials and consequent loss of interest on the part of the landed classes in preserving the system which had favoured them hitherto. However, the agony of the *ancien régime* monetary system lasted very long, and even in the middle of the eighteenth century debate was still raging in continental Europe (Stapelbroek 2004) over whether the sovereign should "enhance" the coin in order to lighten the burden of public debt, sacrificing the interests of banking and trade to preservation of the existing order based on agriculture. (In England, Locke's views in favour of a currency which preserved its metal content had already prevailed over those of Lowndes with the Great Recoinage of 1696, and sovereigns had already seen their prerogatives diminished to that of "keepers of weight and measures" (De Cecco 1987, p. 63).)

Luigi Einaudi, in a rightly celebrated essay on ideal money (Einaudi 1953), dates the demise of the monetary system of the *ancien régime* to the time when, in 1803, Napoleon coined the franc and, for the first time in history, the unit of account took the definitive form of an actual coin of a given amount of fine metal (although the ratio between gold and silver was still fixed by law and not by the market). Symbolically this is probably true, but at the theoretical level it was Ricardo with his Ingot Plan who decreed the end of the system.

5. A turning point in the views on money

Ricardo understood better than anyone else the flexibility which the old system afforded the supply of money by keeping domestic and international circulation separate, and was convinced that the same degree of flexibility could be guaranteed only when the currency was entirely made of paper, convertible into gold only in large amounts and mainly for international trade. He also explained the economic principle which allowed the old system to have metallic fiduciary money, namely the principle of limitation of the quantity, and suggested extending this principle to paper money:

> While the State alone coins, there can be no limit to this charge of seignorage; for by limiting the quantity of coin, it can be raised to any conceivable value.
>
> It is on this principle that paper money circulates. . . .Though it has no intrinsic value, yet, by limiting its quantity, its value in exchange is as great as an equal denomination of coin or of bullion in that coin. On the same principle, too, namely, by a limitation of its quantity, a debased coin would circulate at the value it should bear, if it were of legal weight and fineness. . .There is no point more important in issuing paper money, than to be fully impressed with the effects which follow from the principle of limitation of quantity. (I, 353)

The role of the standard was to provide a guide for the adoption of this principle:

> The only use of a standard is to regulate the quantity and by the quantity the value of the currency – and without a standard it would be exposed to all the fluctuations to which the ignorance of the issuers might subject it. (IV, 59)

and

> . . . from 1797 to 1819 we had no standard whatever, by which to regulate the quantity or value of our money [. . .]Accordingly we find that the currency varied in value considerably during the period of 22 years, when there was no other rule for regulating its quantity and value but the will of the Bank. (IV, 223)

However, the standard had another important role, namely that of anchoring money to the "most invariable commodity" – invariable by nature and invariable by design – in the conviction that money should fulfil the function of reserve of value, and allow the generalised transfer of value over time and the accumulation of purchasing power which the new class – merchants, bankers, insurers, property owners – required. This feature, which some have defined the real distinguishing feature of modern money (Amato and Fantacci 2012), and which the ideal money did not possess, was placed by Ricardo at the core of his monetary system. It was this theoretical shift of focus which really marked the end of a system that had lasted 10 centuries, from Charlemagne to Napoleon, and it opened up a new era: the era of money to hoard and not just money to circulate commodities.

6. Concluding remarks

Ricardo's Ingot Plan was never adopted, his theory was dismantled bit by bit, and although whenever financial crisis breaks out the proposal is always revived to anchor money to one commodity or a bundle of commodities, the idea of a standard has been abandoned, probably for good. Different concepts of value – for goods and money – now make the idea of a commodity of constant absolute value appear totally untenable, while history has shown that when money is the most liquid store of value, its management requires institutions far more powerful than the passive board of commissioners envisaged by Ricardo. The fragility of an economic system where individuals, banks and states can accumulate money and where the fetish of liquidity has many worshippers was exposed by Keynes a long time ago, but the problem is, if anything, growing increasingly serious. Not only have the most original elements of Ricardo's theory been forgotten, but also the memory of the monetary system which he set out to supersede, while keeping its virtues, has long fallen into oblivion. The monetary system of the *ancien régime* is now represented as "partial money" (Hicks 1967) or the realm of fraud and the improbable views on money held by sovereigns who thought they could defeat the market laws. The idea that the use of currency was based essentially on the power of the issuing authority (a cartalist position) introduces disturbing political and historical factors into the neat model of money as the outcome of a market process that begins with barter and is led by private-sector agents who minimise the costs of making exchanges.

In an excellent essay on the metallist and cartalist traditions written in 1998, just before the introduction of the Euro, Charles Goodhart raised the question as to why the idea of money as creation of the market is still so popular with the economists, in spite of the mass of evidence, assembled by anthropologists, archaeologists and historians, that the function of money as unit of account predated the organisation of markets and that money creation has very little to do with cost minimisation and almost everything to do with considerations of political sovereignty and fiscal power. Goodhart saw with apprehension that cost-benefit analysis of the introduction of a single currency was conducted in the context of the theory of the optimal currency area, as if the creation of the Euro zone should follow in the natural evolution of the market, driven by cost minimisation. He called attention to the fact that in the Euro area the traditional historical links between money creation and sovereignty would be broken "to a unique extent" (Goodhart 1998, p. 425) never seen before, with complete divorce between an independent central bank and fiscal power still in the hands of single states. The divorce had positive aspects, but, asks Goodhart, had all the "unforeseen side effects" (Goodhart 1998, p. 410) been carefully considered? If it had worked, it would have been the first time in history. Events, alas, have shown how well grounded his worries were. We, as historians, would have known better, although not many seemed to have been interested in what we had to say. However, as Tolstoy once said, "Historians are like deaf people who go on answering questions that no one has asked them". We must certainly go on answering them and, please note, he says "historians" without distinguishing between historians of facts or of ideas, and this is how, sometimes, it should be.

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Abstract

This paper argues against the distance which has been growing between economic history and history of economic thought (HET). Two examples, drawn from the history of monetary theory, are provided of how neglecting the historical background may lead to erroneous interpretations and prevent a correct assessment of the position that a work occupies in the HET. The first relates to the interpretation of Ricardo's theory of money. The second discusses the so-called inconsistencies between metallist and cartalist positions that can be detected in many pre-Smithian writers on money.

Keywords

Ricardo, monetary institutions, cartalism